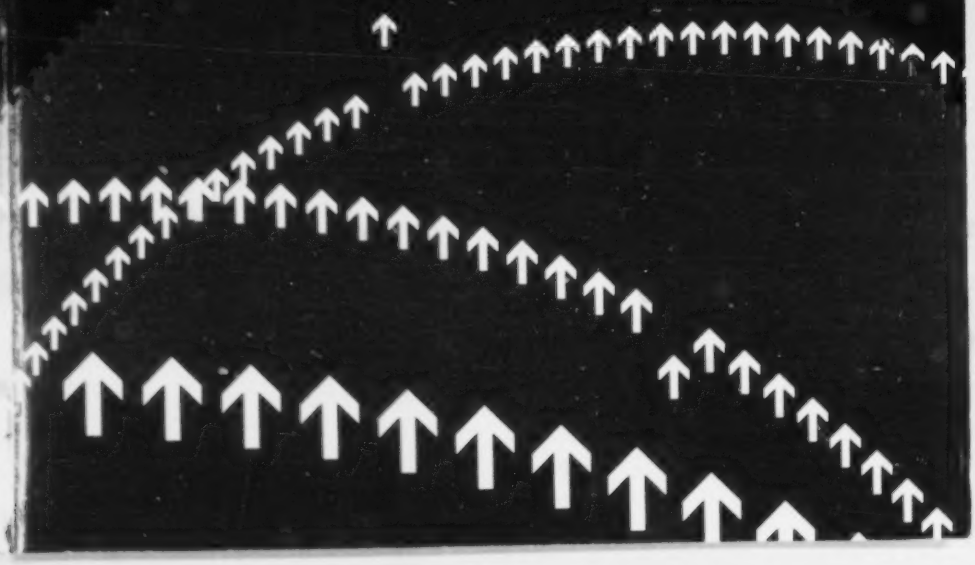
UNITED NATIONS CONFERENCE
ON TRADE AND DEVELOPMENT

GLOBALIZATION, COMPETITION, COMPETITIVENESS AND DEVELOPMENT

High-level segment
of the 44th session of the
Trade and
Development Board

23 October 1997

UNITED NATIONS



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Notes

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PREFACE

The rapidly increasing economic interdependence of countries which has characterised the globalization phenomenon over the past decade has been nowhere better manifested than in the growing participation of the developing countries in international trade and capital flows - thus improving the global division of labour and allocation of savings and investment. Sound and stable macroeconomic policies and outward-oriented trade policies have been important country-level factors in this change. But globalization is driven by enterprises seeking profits wherever they can earn them in a ruthless competitive drive which ignores borders and seeks to exploit all available sources of competitiveness - be they labour costs, capital costs, raw material costs, locational advantages, the presence of partner firms or other factors - in whatever markets they choose to compete. And although exposure to the competitive pressures of international trade and the influx of foreign direct investment may well be stimuli to improved competitiveness, Governments everywhere have recognised that, in creating the conditions for enterprises to compete at home and abroad, they must at the same time bear broader social and economic objectives firmly in mind.

It was to address this policy conundrum that UNCTAD organised the High-level Segment of the Trade and Development Board, of which the present volume provides a comprehensive account. The morning session was devoted to a discussion on how competitiveness is achieved, the role of competition law and policy therein, and the consequences of the search for competitiveness, both on employment and growth and on development, particularly that of countries already marginalised in the global economy or facing the risk thereof. The reader will form his or her own judgment on how successfully we met our objectives, but for my part I believe that the debate was rich and rewarding, with a strong emphasis on the importance of domestic policies, including competition policies, in making globalization beneficial for all. As the Moderator of the Segment, Minister Jan Pronk of the Netherlands, put it, participation in the world economy is a necessary, but not sufficient, condition for sustainable human development of a whole society.

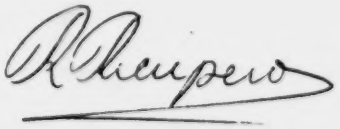
A key to international competitiveness will be the ability of various players to benefit from greater efficiency in their trade practices, in particular through lower transaction costs. This is an area in which the advent of new technologies and planetary networks such as the Internet

can radically affect the relative advantages of countries and enterprises. In this respect, the emergence of electronic commerce represents a major challenge, as well as an unprecedented source of opportunities, for developing countries and their enterprises, and the afternoon session focused on this new challenge.

Since several proposals (emanating from the United States, the European Union, Japan and the OECD respectively) have now been tabled for a "global framework for electronic commerce", it is important to promote understanding of such proposals among developing countries and economies in transition and to contribute to the rapid production of a positive global agenda on electronic commerce and its impact on trade and development.

This is an important and multifaceted endeavour, which includes policy, economic, regulatory and technical aspects. A productive and action-oriented reflection on electronic commerce will require the mobilization of civil society, including Governments, the business sector, non-governmental organizations and academia.

The launching of "Partners for Development" and the announcement, made at this High-level Segment of the Trade and Development Board, that the first meeting will be held in Lyon, France, from 8 to 13 November 1998 therefore fits in perfectly with the debates of the High-level Segment. With its long history, cultural wealth and openness to international cooperation, Lyon is the ideal place to inaugurate a new way of working in the economic and social sector of the United Nations, a way that will demonstrate confidence in the imagination and resourcefulness of all parts of our societies. This, to my mind, is a most exciting way for the United Nations and for UNCTAD to move into the third millennium.



Rubens Ricupero
Secretary-General of UNCTAD

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INTRODUCTION

The ninth session of the United Nations Conference on Trade and Development, held in Midrand, South Africa, from 27 April to 11 May 1996, adopted "A Partnership for Growth and Development" and the "Midrand Declaration".

According to "A Partnership for Growth and Development", the regular session of the Trade and Development Board should include "a segment ... to deal with a substantive policy item with a view to attracting high-level participation. Personalities from the public, private/business and academic sectors in areas related to UNCTAD's work should be invited to attend." The forty-fourth regular session of the Board was held from 13 to 23 October 1997, and the high-level segment was held on the last day of the session. The theme selected for the high-level segment was "Globalization, competition, competitiveness and development". The morning session of the segment was devoted to a panel discussion on the selected theme, while the first part of the afternoon session was devoted to a panel discussion on a related topic, namely "The future of competition: A perspective on electronic commerce". Accounts of these two panel discussions are provided in parts one and two respectively of this publication.

The "Midrand Declaration" states that "the Secretary-General of UNCTAD will convene a meeting with actors in development to advise him on how to enhance the participation of civil society in UNCTAD to build a lasting partnership for development between non-governmental actors and UNCTAD". The first meeting of Partners for Development will centre on the theme "Markets and development", and it will take place in Lyon, France, in November 1998. Preparations for the meeting were launched at the second part of the afternoon session, and the statements made in connection with the launching are reflected in part three of this publication.

The afternoon session of the high-level segment was held jointly with the Second Committee of the General Assembly in New York using videoconferencing facilities, thus constituting the first ever United Nations joint intergovernmental meeting between Geneva and New York.

Part One

GLOBALIZATION, COMPETITION, COMPETITIVENESS AND DEVELOPMENT

1. Opening address

Mr. Rubens Ricupero, Secretary-General of UNCTAD

I would like to explain why we chose for the High-level Segment this subject of the relationship between globalization, competition, competitiveness and economic development. Last year, we had as the main subject of the Segment the problem of investment, and particularly efforts to arrive at a multilateral framework for investment. This year, we are taking up another central problem of globalization, which is competition, because as you know the principal driving force in the globalization process today is precisely the search of enterprises for profits worldwide, and in that search firms now have to pursue strategies which allow them to exploit all available sources of competitiveness on whatever markets they choose to compete. This, of course, has been made possible on the one hand by advances in technological progress, which have greatly increased the scope of the international division of labour and factor mobility, and on the other by the liberalization of world trade in the course of the various rounds of multilateral trade negotiations.

But in its widest sense competition also means the survival of the fittest, and indeed it has been said that competition kills competition. Competition is such a systemic issue that one can say it is at the heart of the discussion not only of the problem of globalization but also of the trade problematique in general. There

has always been broad recognition of the need for government intervention to maintain markets which are structurally and operationally competitive. If globalization and liberalization are to lead to competitiveness and development, they evidently need to be accompanied by appropriate competition policies and laws to prevent a situation in which the elimination of tariff and non-tariff restrictions on trade is negated by firm-imposed barriers to competition or by government-imposed distortions of free competitive markets.

If it is true, as many economists argue, that competition will normally generate static efficiency gains in the short run, Governments will nevertheless still need to decide what types of market structures are best suited to their economies in order to obtain dynamic efficiency gains in the long term. Similar issues arise at the global level in connection with, for example, the protection of intellectual property rights. Competition policy and laws thus need to take into account the specific development features and constraints of countries at different levels of development so as to be compatible with domestic policy objectives and instruments.

At the global level, the rapidly increasing economic interdependence of countries has been nowhere better manifested than in the growing participation of the developing countries in international trade and capital flows, thus improving the global division of labour and allocation of savings and investment. As this year's *Trade and Development Report* pointed out, among the asymmetries of globalization is the fact that the liberalization of the world economy has not proceeded in an entirely balanced way. For example, trade liberalization has proceeded more slowly in products where developing countries are more competitive. By contrast, many restrictions have been removed on the freedom of movement of capital, where industrialized countries have a comparative advantage.

Globalization has also spawned the perception that differences in industrial policies can create distortions in trade and therefore that these policies should be brought under multilateral or regional disciplines. And the increased mobility of productive resources has led to this concern being extended to broader social, fiscal and environmental issues. Thus, many policy-makers tend towards the view that by not adhering to or not effectively enforcing international norms, countries are creating unfair competitive advantages for themselves in attracting investment and competing in international trade.

As you know, one argument that is frequently raised is that, as a direct result of the Uruguay Round, particularly in areas like norms, subsidies, and the problems of trade-related investment measures (TRIMs), the scope for freedom in the industrial and trade policies of government has been narrowed, and you no longer have available as tools for development the kind of policies that were used in the 1950s or in the 1960s and 1970s by Asian and Latin American countries.

This confluence of factors has led all countries to seek operational policies which could ensure that they benefit from the efficiency gains that a liberal trade and investment regime, coupled with deregulation and privatization, can offer, while at the same time ensuring that their broader social and economic objectives are not compromised. The challenge facing all of us is therefore to design policies that permit a liberalization of trade and investment while preserving the ability to pursue these broader goals. This may call for a broader concept of competition policy and laws at the national level and stronger international cooperation than has been the case so far.

It is with this background in mind that we in the UNCTAD secretariat have designed this morning's part of the High-level Segment. To keep the discussion within manageable proportions,

we have suggested that this morning's session concentrate on four rather closely related questions.

The first question is how have some developing countries succeeded in achieving competitiveness in specific sectors or industries, and what policies were conducive to success? In particular, was exposure to international competition sufficient, or were active policies for the promotion of competitiveness also necessary?

The second question concerns precisely the role of competition law and policies. What role have such policies played in establishing the necessary conditions for the successful integration of developing countries and economies in transition into global markets?

The third question is to what extent has success in achieving international competitiveness had positive consequences for employment, growth and development? Experiences in this regard differ considerably from country to country, and I anticipate a lively debate on this key policy question.

The fourth question for debate and reflection today is to what extent has the risk of marginalization facing the least developed countries and other structurally weak or vulnerable economies been increased by the process of globalization? If it has, the natural follow-up question to pose is: what can such countries do to accelerate their growth and development?

This afternoon, we shall turn to a new challenge facing competition and competitiveness in international trade as a result of the advent of electronic commerce. We shall try to concentrate on a dimension that has been remarkably absent from the debate on electronic commerce, namely the development dimension. Many of the proposals that have been made could indeed be considered positive ones in terms of the development process in developing

countries. However, in the absence of development-specific thinking and analysis of the various options at hand, it remains difficult for these countries to express active support for a positive agenda on global electronic commerce. Today's discussions offer a timely opportunity to begin to fill this gap.

You know that the advent of electronic commerce constitutes a challenge to traditional thinking about competition and competitiveness in international trade. In many respects, the strategies followed by organizations and enterprises prefigure the ways in which competitive and sometimes anti-competitive behaviour will shape global markets in the years to come.

For small players, including many developing countries, especially the least developed ones, and more generally small and medium-sized enterprises, electronic commerce offers unprecedented ways of competing in foreign and international markets. At the same time, the simple fact that electronic commerce cannot take place in the absence of minimal telecommunications infrastructure raises direct questions of access for such smaller players, as well as for entire regions, such as Africa. This of course is the problem of connectivity.

From a policy point of view, electronic commerce is still largely uncharted territory. For some of its most active participants, this is an asset, since it will allow a rapid development of international electronic trade flows with a minimum of legal, regulatory and fiscal obstacles. Others, on the contrary, consider that electronic commerce will not yield its full benefits unless some rules of the game are established to make it a truly global instrument for economic growth and development.

Some of the main policy issues to be addressed in the afternoon will be in terms of access - how can electronic commerce be rendered accessible to all, and in particular to the less advanced regions of the planet? How can decreasing costs in

telecommunications be better geared to LDCs' participation? On the question of trade negotiations - how should the multilateral process aimed at further trade liberalization deal with electronic commerce? With regard to competition laws - how should existing regulations on competition be amended to take account of the advent of electronic commerce? And on the question of governance - how can global infrastructure for electronic commerce such as the Internet be adequately governed without hampering the expansion and development of electronic commerce, especially in the less developed parts of the world?

2. Reports on the discussions of the Trade and Development Board

Ambassador Anthony Hill, Permanent Representative of Jamaica, presenting the Board's debate on interdependence

My report is going to be extremely brief. The Board's agreed conclusions on interdependence are to be found in nine short paragraphs[1/], and I will therefore restrict myself to highlighting some of the main points.

The first question is, as the point of departure given by Mr. Ricupero, to what extent has competitiveness and the search for competitiveness affected employment, growth and distribution of income in developing countries?

I would like to dispose of the first item of competitiveness. I share the view that competitiveness defined as a situation in which nations compete may become a dangerous obsession, and perhaps already has. I believe, however, that there can be competitiveness and competition among firms within sectors.

There are three issues that I would like to highlight. The first is analysis. The analysis of the *Trade and Development Report* and all of the comments thereon pointed to the fact that it is important to have sound theory as a precondition for sound policy and that empirical evidence should always guide that policy. And therefore when the agreed conclusions speak about income disparities, they refer to the impact that income inequality has on policy. If policy and theory are not soundly based, this could lead to unsound reactions through trade protectionism.

The second main issue is national policy, which focuses on income distribution within economies, across economies and even within certain skilled professions. I think it has been known for some time that there is growing income disparity, and yet the response so far has merely been to formulate policies along the lines of sound macro-economic policy and the like, instead of, for example, looking at what the Dutch have done, which is to make the trade-off between what Mr. Ruud Lubbers calls the three Js - jobs, jobs and jobs. Perhaps now is the time that, internationally, we should look at the question of employment on a global scale.

I would like to turn to international policy. The Secretary-General of the United Nations has indicated that part of his reform programme is an agenda for development. I think it is important that the multilateral institutions, i.e. the UN and the specialized agencies, the WTO and the Bretton Woods institutions, revisit the development dimension.

I think those are the three points to be made. I have had the chance to read some of the writings of some of the panellists, and I am sure that some of these points will emerge in the discussion. I would like to end on a philosophical note and refer to the philosopher and poet, Robert Browning, who said: "That life succeeds in that it seems to fail is a paradox which comforts while it mocks". And we are truly living in a world of paradox.

Ambassador Agnes Yahan Aggrey-Orleans, Permanent Representative of Ghana, presenting the Board's debate on Africa

The broad aim of the discussion was to consider, in the context of globalization, the prospects for Africa in terms of becoming competitive in international markets and integrating more fully into the world economy. The specific economic problems of Africa and the more general issue of development policies aimed at faster and sustainable economic growth were considered. Competitiveness was seen as playing an important role in this respect.

There was broad agreement that the term "competitiveness" is often used in different senses. While the term does not have much meaning when applied to countries or regions, it has relevance at the level of the sector and of the firm. In another sense, competitiveness refers to the factors which determine the locational behaviour of internationally mobile firms. A narrow focus on factor prices as a determinant of competitiveness was rejected, and a variety of intangible factors, such as product quality, the capacity for timely delivery, etc., were highlighted. Transaction costs, in particular transportation costs within countries and across borders, also have a decisive impact on both competition and the competitiveness of individual suppliers. Appropriate policies with regard to the real exchange rate constitute an important element in managing the link between investment and exports.

High transportation and transaction costs in relation to the value of tradeable goods were considered a major reason for the loss of international market shares of African exporters and also for the extremely low level of intra-regional trade in Africa. These costs result from an underdeveloped physical infrastructure. But the political, legal, institutional and social infrastructure, sound exchange-rate management, and the quality of governance are also important factors influencing a country's ability to expand trade and

to attract FDI. Moreover, for countries to succeed in international markets, it is essential to have well functioning local markets and domestic economic networks. This is not the case in a number of African countries. Another factor in Africa's poor export performance is insufficient international marketing efforts.

While the importance of macroeconomic and exogenous factors was emphasized by a number of speakers, there was broad agreement that country experiences differ considerably within Africa. Hence, there can be no common explanation for the loss of the share of African exporters in world markets. Explanations have to be sought at the country and product level. There was also broad agreement on the need for greater investment in and better management of infrastructure, especially in the areas of transportation and telecommunications, and a strengthening of domestic markets and local entrepreneurship in African countries. Supply-side constraints were perceived as the greatest obstacle to higher exports from Africa, although some contended that these constraints could only be addressed in relation to specific products. Measures to improve the investment climate were recognized as central to the policy agenda, though these should be defined not simply in relation to FDI but also, perhaps more importantly, in relation to domestic savings and capital accumulation. In many countries, increased investment also requires support by the international community.

African countries should identify those products for which there is both a supply potential and the likelihood of rising international demand, and target such sectors accordingly. However, there was not complete agreement as to which sectors should be given priority. The suggestion was advanced on the one hand that Africa should concentrate its export efforts on sectors where it has a natural comparative advantage, such as the primary sector and tourism. It was argued on the other hand that countries should seek to develop dynamic comparative advantages in new

areas, as diversification into non-traditional sectors holds out the greatest potential for gains in the medium and longer term.

Strengthened regional cooperation and intra-regional trade were considered to be important elements of an African development strategy. Trade with neighbouring countries is often easier to expand and offers opportunities for firms to learn how to compete globally. In this context, there was an inconclusive discussion about the potential role of growth poles in Africa.

With respect to policy options of African Governments in the context of globalization, it was argued that, despite the limitations resulting from the WTO, active trade policies will remain important, especially for the least developed countries. National policy choices continue to be crucial, especially with regard to import and capital-account regimes. Moreover, developing countries should not underestimate their potential for influencing the international framework for trade and financial relations. This requires intensified cooperation amongst them with a view to arriving at common positions in international negotiations on the relevant rules. The forthcoming negotiations on Lomé V will be a test of the leverage that developing countries possess against the background of the constraints resulting from WTO rules.

The debate also extended to UNCTAD's contribution to development in Africa. UNCTAD's technical assistance programmes, especially in the areas of trade efficiency, trade facilitation and communication, were considered important elements which should be strengthened further. UNCTAD was also called upon to strengthen its support for South-South cooperation. While UNCTAD's research on successful development experiences in East Asia could provide possible lessons for African countries, the experience of Northern African countries in expanding their non-traditional sectors should also be studied. UNCTAD should focus on the specific implications for African countries of globalization and increased international competition. However, the debate ought

to be based on a study of specific country situations and experiences.

With respect to the crucial issue of infrastructure development, work in UNCTAD should focus on its international dimension. UNCTAD also has a unique capacity to analyze the potential contribution of FDI, including FDI from the more advanced developing countries, to development in Africa. Moreover, UNCTAD should examine the experiences of African countries with regard to their trade policies, make proposals on how to develop new dynamic export sectors, and identify the remaining scope for industrial and trade policies following the conclusion of the Uruguay Round.

Ambassador Daniel Bernard, Permanent Representative of France, presenting the Board's debate on LDCs

The Sessional Committee on LDCs which I had the honour to chair during the Trade and Development Board focused its discussions mainly on agriculture, working on the basis of the *Least Developed Countries 1997 Report*.

I would like briefly to reflect here some of the main points which emerged. I will begin by making four broad points in relation to agricultural development in LDCs and implications of globalization on competitiveness of LDCs' agriculture, before proceeding to four more specific points relevant for the LDCs and their development partners.

For the LDCs, perhaps more than any other group of countries, agriculture is of crucial importance for development. The comparative advantage of many LDCs lies in agriculture. Hence enhancing the integration of LDCs into the world economy is dependent upon their developing competitive agricultural sectors.

Second, until relatively recently, agriculture was for the most part a sector of secondary importance in the evolution of the multilateral trading system. With the Uruguay Round Agreement on agriculture, together with liberalisation in many countries, agriculture, like other tradeable sectors, must now adapt to a much more competitive international economic environment, characterised by, *inter alia*, an erosion of trade preferences which LDCs previously enjoyed in some of their main export markets. If agricultural producers, in LDCs as elsewhere, are to improve market shares, competitiveness is crucial.

Third, experience in many countries of the world has demonstrated that the development of competitive agricultural sectors does not necessarily benefit all of the poor, and may make some of them worse off. A crucial issue for most of the LDCs is to ensure that smallholder farmers, including women farmers, who dominate agriculture in many countries, can benefit from expanding market opportunities. This requires careful design of policy reforms to ensure that access to resources, in particularly land, is not made more inequitable and that attention is devoted to alleviating the constraints faced by this group of farmers. The same is true, for example, in trying to maintain a balance between export crops and food crops.

And lastly, there is a great deal of diversity in terms of the agro-ecological conditions both between LDCs and within individual countries. Consequently it is clear that the design of policy interventions must be sensitive to the specifics of each country.

I will now move on to four more specific issues pertinent to the design of agricultural policy reforms in LDCs, for the development partners of LDCs, and for the multilateral trading system which were raised by a number of delegations. I will organise my remarks around four issues: firstly, the design of reforms, including sequencing; secondly, the need to address

supply side issues; thirdly, the social implications of agricultural reform; and fourthly, the international trading environment facing LDCs.

On the design of reforms, delegates recognised that appropriate macroeconomic and trade policies are essential for the development of competitive agricultural sectors in LDCs. Although LDCs have implemented major policy reforms in this area, there was some concern about policy slippage.

Several delegates drew attention to the need for appropriate sequencing and timing of agricultural marketing reforms, to ensure that the private sector is in a position to take over the services previously provided by the public sector without any loss of access to these services by farmers, and that a public sector monopoly is not replaced by a private sector monopoly.

Some participants also emphasized the close and complex linkages between different aspects of reform. For example, the elimination of certain agricultural taxes by definition reduces fiscal income and leads to cuts in subsidies, resulting in the need for a gradual liberalization of prices and the privatization of marketing channels.

With regard secondly to supply side constraints, a number of speakers stressed that pricing and marketing reforms alone are not sufficient to bring about the development of an internationally competitive agricultural sector in LDCs, because farmers in these countries face a whole range of supply side constraints on increasing productivity and output. Alleviating these constraints requires action in terms of rehabilitating and expanding the physical infrastructure, especially rural road networks and storage facilities for crops; enhancing credit supplies for small farmers, including both seasonal credit and longer-term loans; expanding research and agricultural extension activities, especially to develop and disseminate appropriate high-yield varieties and other improved

farm technologies appropriate to the environment and socio-economic structures in individual LDCs; R & D should be extended to crops which have so far attracted little attention, such as drought-resistant cereals grown on marginal arid lands such as the Sahel, as well as to non-traditional export crops; R & D and extension services should also assist small-holder farmers to adopt more effective soil and water management techniques. Action is also required in terms of enhancing human resource development, which is essential for raising productivity in rural areas, with investment in primary education receiving priority; rectifying deficiencies in marketing infrastructure to reduce marketing margins and give farmers a greater share in the final consumer price of their output; and facilitating access to inputs and reducing their cost.

Participants cautioned that implementing sectoral and institutional reforms such as the ones outlined is much more difficult than implementing macroeconomic reforms. The international community has an essential role in assisting LDCs to implement reforms through technical assistance programmes, as envisaged in the Marrakesh Ministerial Decision in Favour of Least Developed Countries. The role of the state in the implementation of these reforms was seen as crucial.

Thirdly, with respect to the social implications of reforms, according to a number of observers, the development of commercial agriculture has not always benefited the poor. A key issue is access to resources, particularly land. It was stressed that the social impact of reform should be given much greater priority than has previously been the case.

Fourthly and lastly, with regard to the international environment, there are a number of issues of concern to LDCs, not least the unsustainable levels of debt of many of the LDCs. The Uruguay Round Agreement has gone some way towards liberalising international trade in agriculture, and LDCs have been given special and differential treatment to safeguard their interests. Nevertheless,

there are still a number of issues giving rise to concern in LDCs which warrant attention from the international community. These include the possibility that global agricultural liberalisation could lead to greater fluctuations in cereal prices to the detriment of food security in net food-importing LDCs, at a time when food stocks and food aid are being reduced. Another concern is that, although there are exemptions and special provisions for LDCs under the Uruguay Round Agreement in regard to support for farmers, particularly subsidies for inputs, aid in respect of investment and diversification and the maintenance of some production subsidies, it was pointed that these provisions may not be very relevant to LDCs as in several cases conditionality associated with reform programmes negotiated with donors already preclude such policies. Another source of concern lies in the fact that joint work carried out by UNCTAD and WTO has revealed that liberalisation has not yet removed all the high tariffs facing LDCs in product lines, such as processed foods, in which LDCs' comparative advantage is likely to lie. Finally, the difficulties which LDCs face in complying with health and safety standards with regard to food products is another barrier to export growth, particularly since these standards have not been harmonized.

3. Presentations by panellists

Mr. Jan Pronk, Minister for Development Cooperation of the Netherlands, Moderator of the High-level Segment

I have asked the panellists to take the floor in a somewhat different order from the questions which were put forward by Mr. Ricupero. The first question is going to be addressed by Mr. Lizana - how did some countries become successes stories on the global market? Was it just the exposure to international competition, or was it also policy-made?

Mr. Pedro Lizana, former Chairman, Society of Industrial Development, Chilean Federation of Industry

First, it is a great honour to have been invited here: I feel a little out of place, since I trained as an economist but have been in the business world for many years, not only leading the Chilean Federation of Industry but also, for four years, the Latin American Federation. So I would like to combine the two viewpoints, of an erstwhile economist and an economist who has lapsed into business. As an economist, I wish to point out that in Chile's case, the basic economic principles taken into account as the country reformed to join the world economic system and hasten its development were the same ones that govern the world at large. There is nothing new here, no miracle, but I would like to put on record that the principle I consider the most important for an economy joining the world economic system is what I have called a quest for truth in pricing. Closed, half-open and imperfect economies have a great many false prices, deceitful prices which lead to a skewed allocation of resources, and one has to believe that prices on the world market are closer to the truth than domestic prices when economies are not part of the world economic system. The first approach taken was, obviously, to open the economy to foreign trade, gradually lowering tariffs, and it took five years to reach what I call a more or less appropriate level of 10 per cent - less on average, I would say. But at the same time that tariffs came down, an effort was made to offset this and, again, to arrive at a truthful price for foreign exchange, lowering the exchange rate or allowing it to fall as tariffs declined. At bottom, in a high-tariff economy you can be sure that the people paying for the resulting low exchange rate are the exporters, and when you make the exchange rate truthful, exporting becomes an altogether more dynamic undertaking. The other principle I regard as basic is fiscal and monetary balance - cutting or adjusting the State's share of the economy to between 15 and 20 per cent of output and no more, because for businessmen and the community generally the State is a burden whose costs they have to shoulder in order to compete abroad, and it can be more or

less efficient. The other change that was very important was the change in the pension system from pay-as-you-go to a funded system.

Another point concerns privatization of businesses that the state can do without, which is a large proportion, and by privatize I mean not only sell businesses and concessions to the private sector - I don't care much about the prescription followed, you can have lots of prescriptions - but also, and especially, that in many areas the state should contract services out. This is much faster and more flexible. Even if you take it to an extreme - for example the prison services - the delivery of goods and materials can be contracted out; school meals can be contracted out, and many other things; for example, if you have a state company supplying drinking water, it can contract out network installation and meter installation and meter-reading; there are lots of services that can be contracted out, and this slims down the State and makes it more efficient. This is where modernizing the national finances is very important. To begin with, of course, the first thing that was done was to free prices, and there were only a few markets left where there was no competition, such as basic electricity services, where there is a regulatory system based on marginal production costs as if it were a competitive market.

And the last, very important, very basic point is to get the labour market to function. Why do I say get it to function? Because there was intervention in our labour markets, too, allowing monopoly organizations of both employers and workers to grow up. And this is what is vital: wage negotiations must be conducted at the individual business level, not with groups of businesses or groups of workers. To take a very straightforward example, if petrol-station workers negotiate wages across the sector with the oil companies, it is easy for the oil companies to pass on the increase in wage costs to prices. You have one monopoly teaming up with another monopoly, and it is the community that pays. This occurs in all sector-wide negotiations, in the metals industry or whatever.

Though our system permits sector-wide negotiations, it does not require them, and negotiations basically take place at the individual business level. This, I think, is a very important aspect that is normally overlooked or ignored.

What were the main results of this very active economic model being adopted around the world? The first was a rise in visible unemployment, instead of hidden underemployment. Then, at the same time, there was an initial fall in earnings, because with the reallocation of all these resources among sectors and with businesses closing or moving onto reduced working time, it takes a while to develop new investments and soak up the unemployed. A great many industrial ventures closed, of course, because they could not compete. Normally such adjustment periods occur in economies suffering from high monetary imbalance, a very high inflation rate. Then, of course, there was a big rise in real interest rates, which I would say persists to this day, largely on account of anti-inflationary policy, another thing, I think, which is extremely valuable at a time when an economy is adjusting or being made more truthful.

I think the public has to begin to understand what a market economy is. The community must get it into their heads that progress depends on business's own efforts, not on legislation or government action. Until people believe in themselves and their own entrepreneurship, they will always be looking for special treatment from the authorities.

Another thing I think is very valuable is decentralized labour training systems. Normally, the orientation of a country's training system is decided on by the authorities, and some authorities are not capable of doing that. The people who hire labour are the ones who can say what sort of skills they need. So what we did was set up a system of subsidies that diminish in proportion to the wage scale and are tax-deductible, so the businessman decides what skills

are needed, and there are centres on the market that offer these training arrangements.

The other thing I think is vital is to encourage business specialization. What happens in closed economies is that businesses tend to do a bit of everything and not specialize, and just as the division of human labour has brought about a clear increase in productivity, the division of labour among businesses is very important - increasing subcontracting among businesses. A business should do only what it thinks it really needs to do, and contract the rest out elsewhere. I have always given as an example Toyota, a very modern firm, which subcontracts, or buys in, 70 per cent of the car. And today you have the case of a car manufacturer buying engines installed in the bodywork, and that makes for very large gains in productivity, because each small business concentrates on one specific task or part of the process. So I would make an effort to encourage subcontracting.

When these truthful prices make the country attractive, an interest in foreign investment develops, and foreign investment is a potent way of making up for a country's inability to finance its own investment. But there is a danger, and I am one of the few in Chile to draw attention to it. As a fervent partisan of foreign investment, I fear that countries, like people, cannot digest very large quantities of food, and a country has only so much capacity to absorb investment. In a country with, as in Chile's case, some 35 billion dollars in foreign trade and output of nearly twice that or a little more, the unexpected arrival of 10 or 20 billion dollars in foreign investment can knock the entire economy for six. There are limits that no one has yet mapped out, but in Chile's case a surplus of foreign investment has resulted in such a fall in the exchange rate that the competitiveness of the entire export manufacturing sector is in serious trouble. We are victims of our own success. This is very important to bear in mind before putting forward any limit or solution.

The other thing that clouds political action in a country opening up to the outside world or joining the world economic system is concern over income distribution, which to my mind is an outdated concept. We should be concerned with the distribution of wealth-generating capacity. The poor are not poor because incomes are badly distributed. The poor are poor because they have less wealth-generating capacity, and if you look at the question from this angle it occurs to me immediately what has to be done. Their wealth-generating capacity has to be increased and subsidized. The other very important thing to watch, of course, is that countries at this stage of development, when they join the world economic system, need their infrastructure to develop almost as fast as, or even faster than, the countries themselves. But the prejudices we run into here! The chief one we find is opposition to giving the private sector the opportunity to invest in these areas by means of concessions over or ownership of ports and highways. In this case, I would say, good infrastructure you have to pay for is preferable to bad infrastructure you don't, because at least in the one case the people who benefit pay, whereas the "free" infrastructure hurts everybody.

The other thing that has to be watched is unfair foreign competition. As I said at the beginning, and I would like this to be my main message, when I was talking about truth in pricing, we have to be on our guard against false signals from the outside. Some countries still subsidize exports heavily, some practise non-market-economy prices and offer goods at below the cost of the raw materials; you have to watch out for these things if you do not want some industrial sectors to be killed off by wrong pricing.

And lastly, it is important to promote exports through good information, market information, and foreign trips by businessmen. If you were to look at how Chile joined the world economic system, you would see that, 10 or 20 years ago, it was exporting to 10 or 20 countries; now it exports to over 120. If you look at the number of products over the years, there were about 300 then and

4,000 today. The number of businesses has risen in the same proportion. I would say it is very valuable for the Government and the business world to join forces in a campaign of trade visits and missions around the world. This is a very practical approach. Even if negotiations do not take place on every trip, contacts are made that will allow negotiations to proceed. This is a first insight I should like to offer you in particular.

Moderator

Mr. Lizana, may I ask you one question. You referred to the rather unavoidable consequences of opening up, resulting in a short-term drop in employment, the closing of less competitive industries or shops. In the transitionary adjustment period, how was that accepted socially and politically, for instance by the labour unions? Was that explicitly dealt with? Could you elaborate on that?

Mr. Pedro Lizana

There is no very widespread public resistance insofar as workers and unions see that their incomes depend on business; if things go badly for business, they realize that they will go badly for them, too. Today - or rather over the past 10 years, I should say - there has been less social unrest in the jobs sector in Chile than ever before. We were all afraid that, as we moved from authoritarian to more democratic government, there might be social upheaval. Even union membership has fallen, and wage increases in non-unionized sectors have even been larger than in the unionized ones because there has been a great change-around. People have more faith in business than in pressure from other groups on the Government or on groups of businesses. So I would say it is very important for the public to be introduced to economic concepts, for people to understand that how they get on depends on

how they work and the business they work for, not on political favours or group pressures.

Moderator

We now go to the second question. The first question was: is exposure to competition sufficient for success, or is success also policy-made? Mr. Lizana said exposure to competition is necessary but you also need policies in order to influence the conditions under which exposure to competition can help your economy. This implies competition policy, and as a matter of fact Mr. Lizana referred to competition problems, for instance in investment.

This brings me now to the second panellist, Mr. Souty, who will take up the following question: what has been the role of competition law and competition policies in establishing the necessary conditions for successful integration into global markets?

Mr. François Souty, Rapporteur Permanent, Competition Council, France

I would like first of all to thank the Secretary-General of UNCTAD for the importance accorded recently in UNCTAD to competition law and policy. Last September, in a discussion on investment and competition, we saw a consensus emerge among the panellists, though not yet among all member States, on the usefulness of having investment liberalization policies accompanied by the introduction of competition law and policy.

In this connection, I would like to emphasize, in my capacity as a member of a competition authority and academic, that competition law and policy serve a basic objective, namely economic progress, and therefore development and growth. The concept of economic progress is often difficult to define in itself,

and competition law and policy can perhaps help us to find ways forward towards a definition.

To follow on from what has been said by my predecessors this morning, I would say that competition policy serves four goals.

The first goal is to seek to attain a level of economic performance which is desirable for individual firms and which ensures the performance of the economy as a whole. It is through opportunities for the growth and prosperity of individual firms that an economy as a whole prospers, and it is through these opportunities and this prosperity that a growing number of economies are currently integrating into the world economy. The *World Investment Report* published in September showed, for example, that in recent years more than 35 countries have introduced competition legislation and that the underlying trend accompanying world growth is mirrored in many countries introducing competition law and policy.

The second objective of competition law and policy is to seek to identify and preserve competitive processes in the relevant sectors of the economy in order to contribute to the overall performance of that economy. This point was made several times this morning by a previous speaker in connection with agriculture, and others have said the same thing in other fora. The inefficiency of regulated public services (often inefficient in the least developed countries, and sometimes relatively so in the advanced countries as well) seriously hinders overall collective performance. It is not so much a question of public or private ownership of the means of production as of the structure and objectives within the framework of which ownership is exercised or in relation to which economic actors are regulated.

This having been said, the creation of competitive economic structures may make it possible to resolve the ownership question quite quickly through the privatization of public enterprises under

satisfactory conditions and to use the income from privatizations to achieve a better overall economic performance from which the State could benefit.

The third objective served by competition law and policy is the formulation and guarantee of transparent and non-discriminatory rules of good conduct and fair competition in business. When you talk about fair competition, some people are particularly fearful of the actions of transnationals, which are held responsible for a whole series of more or less predatory strategies that are not in the interests of consumers, not only in the least developed countries but also in the developed countries. This having been said, fair or unfair competition does not depend on transnational or multinational corporations alone; a private operator in a dominant position in a given country will also be tempted to exploit his economic position in that market. What I would like to say in this connection is that the less a market is legally structured by a competition system while at the same time being inward-looking, the more tempting it is for certain national or foreign economic actors to seek monopolistic strategies that are to the detriment of the overall performance of the economy in question and to the detriment of consumers, the largest group in these economies.

The fourth objective of competition law and policy is to prevent undue growth of the largest public or private economic actors. Such growth is generally measured in terms of distribution, and competition law and policy aims to achieve a balance in the distribution of market power, taken in the broad sense. Historically, whether in Europe, the United States or even Japan, this last goal has sometimes been used to justify the enactment of competition law and policy. Such policy has sometimes even been likened to "populism". However, once this "primitive" assessment has been left behind, it can be seen that the decentralization of economic power is the very essence of a competitive economy. What competition policy will seek to do from this point of view will be to preserve the mobility and freedom of entry and exit of

economic operators and guarantee economic competition in the markets concerned.

The developing countries often face economic problems encountered by the industrialized societies several decades ago. To get themselves out of these difficulties then, these industrialized societies introduced competition laws and policies which made it possible to establish a solid economic base that allowed their enterprises and companies to flourish, while expanding opportunities for world trade and economic integration. Looking at the indicators before us, the least developed countries have to reflect on the methods used by their advanced partners in order to stimulate their own growth. These methods include the creation of a system of economic competition designed to stimulate market forces and to create wealth. It is in the interest of everybody, developed countries, less developed countries and the others, precisely to seek the conditions for the establishment of competition legislation that meets their aspirations in respect of the creation of such wealth. This does not mean that competition law and policy should not take into account on the one hand the structural characteristics of less developed markets and on the other the legal and cultural traditions of the countries in question. The case of the European Union, in which 15 different sets of national legislation and Community law coexist, demonstrates at least one thing, namely the very large degree of flexibility and room for manoeuvre that is likely to exist around a number of common, harmonized or convergent legal and economic principles.

All this will produce an effective legal system and microeconomic policy only if two conditions are met. On the one hand, at the level of States or regional groups, and perhaps one day at a still higher level, competition law and policy should be implemented by independent authorities. On the other hand, the process should be under the control of a common law judge, i.e. the entire procedure for the implementation of competition law should be subject to the executive constraints of macroeconomic

administration. On this last point, I think that it is for the executive and legislative power to define the framework for the system of economic freedom and for the courts to apply it.

Moderator

Thank you very much for outlining the aims of competition policy and how competition policy could help countries to take advantage of globalization and to avoid the disadvantages. In that connection, your fourth aim was to avoid undue growth of the already competitive. Could you outline the criteria as to who should decide what is "undue"?

Mr. François Souty

I did indeed refer to inequitable or rather undue growth. What is needed is to prevent the seizure or creation of supra-competitive market power by economic actors whose exercise of market power is not subject to any limit. It is in this sense that we can speak of the role of competition law and policy in contributing to equity and economic freedom. It is a matter of safeguarding economic freedom and preventing its confiscation by public or private economic actors. Of course, there is another type of behaviour which naturally seeks coordination among economic actors, and a central characteristic of competition law and policy is to seek out the anti-competitive aspects of such coordination. In our jargon, we speak of competition activities and anti-competitive agreements, and these horizontal and vertical agreements have to be examined in relation to the overall rules established to preserve economic freedom and competition.

Moderator

The third question refers not so much to the "ins", i.e. countries that are success cases on the global markets, but to the ones not yet in, i.e. the "outs". There have always been the "ins" and the "outs" in the world economy, the richer countries and the poorer countries, for instance. The question is: does the modern process of globalization widen the gap between the "ins" and the "outs", is it more difficult to become a partner in the world economy due to the process of the globalization, and if so what can you do about it?

Mr. Dharam Ghai, Director-General, United Nations Research Institute for Social Development (UNRISD)

I will be talking about globalization and marginalization, about some of the factors that underline these processes, and more importantly about what can be done to reverse these trends.

I would like to start with a few distinctions. First, when we talk about marginalization, it can refer to many things. It can refer to the fact that some countries have not participated in the benefits of growth generated by globalization or have benefited less than some other countries, or it can mean that they are totally unaffected, untouched by the process of globalization, or thirdly that they are absolutely worse off because of the process of globalization.

Another distinction is between countries and individuals; this has already come up, and while I will be talking about a large group of countries, I think it is important to remember that in the end we are talking about people and social groups. It is quite possible for a country to benefit enormously from the expansion of world economic integration but for major groups of people to be worse off, at least in the short to medium run, as a result of these processes.

The third distinction I would like to make is this: we talk of economic and social policies, but of course these are closely interdependent, and it is necessary to take a comprehensive and holistic view of the development process and of the policies concerned.

There seems to be general agreement that what are called least developed or vulnerable countries have been marginalized in one of the three senses that I referred to earlier on. The reasons for this are not difficult to enumerate. The first is that many of these countries enjoyed certain trade and other benefits, and the processes of liberalization have resulted in the erosion of these benefits. So they have not got anything new.

Secondly, some of these countries, and this is related to the first point, already enjoyed more or less free access to important industrial markets, and therefore these rounds of liberalization have not brought anything new to them.

The third point relates to the trade structure that most of these countries have. Their major exports are minerals and agricultural products, whereas the dynamic sectors have been manufacturing and to some extent services. Thus, because of their trade structure, i.e. the dominance of minerals and agricultural exports, they have not benefited from the new dynamics created by globalization.

The last point is that the countries concerned have been bypassed by more intensified flows of investment, private capital and technology, and this in turn is due to reasons that have been mentioned by previous speakers. But one such reason which has not received adequate attention, perhaps, is the most important, and that is the question of the political and social instability, violence and conflict found in many of the least developed countries. The second question of limited markets has been talked about, as have poor infrastructure and poor endowment in human resources or skills.

It is clear that, if countries can overcome these barriers, and they are indeed extremely significant barriers, then globalization opens up enormous opportunities for very rapid growth. This is because, in principle, in theory and in the medium to long run, globalization by definition removes the constraints of markets, finance, savings, capital and technology. It becomes a question rather of which countries are able to attract these from outside sources.

So my policy framework for overcoming these problems flows directly from this analysis. I think the first fundamental issue for many least developed and vulnerable countries is the question of political stability, of rule of law and order, of questions of democratic participation, legitimacy, representation and accountability, in other words what has been called governance, but which hides many different things.

There are some countries which are now in the process of recovering from the devastation of war; they are in the process of what is called reconstruction of war-torn societies or of strengthening peace-building. It is very important that these processes succeed, otherwise it is very difficult to talk of any kind of economic development. At the moment, there have been two problems in this process; one is that the emergency reconstruction and development phases tend to be separated and differentiated, whereas it is generally recognized that we have to look at them together in an integrated way, though how to do that is more difficult. And secondly, there are many actors at the national and international level, but often they go about the process in their own way and they have their own interests, and therefore you have to find ways and means through which you can create the possibility of dialogue and discussion among different internal social actors and between internal actors and international actors, who play very important roles in the processes of reconstruction and development.

The second major area I would like to emphasize is that of regional cooperation and integration, which has also been mentioned. I think most people would agree that one of the best avenues for the resolution of the problems of the least developed countries is through more enhanced regional cooperation and integration, and here some of the more developed developing countries or the better endowed among them have a critical role to play. In the case of South Asia, there is SAARC, in the case of South-East Asia there is ASEAN, and in Southern Asia there is SADEC. In Latin America, there is the Andean group and many other regional groupings. It is important that economic cooperation takes the form not only of removal of trade barriers, but also of strengthening of infrastructure, power, transportation, communications, training and education and other kinds of cooperation among developing countries, but as I mentioned, the more advanced of the developing countries have a particularly important role to play in these regional groupings.

My fourth point relates to the creation of a niche by different countries. I don't think one can generalize on this, but I think it is important not to be too pessimistic; it is important not to think that there are no possibilities for least developed countries, since I think the process of globalization does open up opportunities, and it is a question of developing them, exploiting them, and intensifying or enhancing dynamic comparative advantage. This can be done in many areas - in crafts, in music, in the field of tourism, in the field of horticulture, and in the field of processing of special raw materials and agricultural and mineral products. So there are many existing possibilities, as well as new possibilities which will be opened up by the process of globalization.

My last point is we must remember that, in the end, what we are talking about is human and social development. The processes of economic growth are important insofar as they lead to reduction and elimination of absolute poverty, elimination of illiteracy, reduction of infant mortality and malnutrition, increase of life

expectancy, better health facilities, access to basic education, health and water, and gender equality. These are the central objectives of development. The processes of globalization have resulted in marginalization in this important sense that many people have not benefited from these services. So I would like to make a proposal for an ambitious global accelerated programme for human development to comprise the areas that I have mentioned. In this regard, it is important to stress that it is not necessary for countries to have a per capita income of 10,000 dollars to achieve these basic objectives, which are high life expectancy, low infant mortality, complete adult literacy, elimination of child malnutrition, low total mortality and basic primary and health education. The research conducted in my own institute and elsewhere has indicated that it is possible for countries with a per capita income as low as 224 dollars a year to have some social indicators amazingly close to those of industrialized countries. So we don't have to wait for three generations before some of these major social deprivations can be attacked. In this regard, we have all kinds of fora at the moment in the world, and I would like to propose, at the risk of creating yet another one, that the time has come to establish what I might call a global world solidarity forum or a world solidarity foundation. The basic objective of this forum will be to promote action, thinking and policies on accelerated human development in the sense I have talked about, and thus it will have a number of functions. One would be to learn from these policies that I have mentioned, and this could be the basis for very successful South-South cooperation.

Secondly, this forum could provide an avenue for policy dialogue on major issues on which there is disagreement, like drugs, for example, which represent a major social problem. A lot of countries have tried different experiments, and it would be useful to have a forum like this which could create the possibility of dialogue on these contested issues.

Thirdly, it would be useful to have a forum where some of the emerging problems can be tackled, for example the whole range of social effects of globalization and its implications for employment, poverty, minimum wages, working conditions, and coordination of fiscal, social and taxation policies at a regional and global level.

These are some of the relatively new issues which have not been adequately explored, or even researched, so this forum could provide a place for that. And lastly, it could influence resource allocation, channelling available resources into promising approaches and tested projects and initiatives. This would not involve the creation of a new organization; on the contrary, it would be best to exploit and use the existing network of conferences at the regional and international levels, indeed like this very gathering, but with a view to promoting human development and human solidarity at a global level.

Moderator

Thank you Mr. Ghai. You have said that there is indeed a risk of marginalization but it can be avoided if countries implement proper policies and set the right priorities oriented towards stability. At the end, you said that it is quite possible to increase the standard of living of poor people, even with a low level of per capita income. Is there not a contradiction between the two sets of priorities, i.e. becoming a player in global markets on the one hand and attaining objectives with regard to life expectancy and basic health care on the other hand?

Mr. Dharam Ghai

It is possible to conceive of circumstances where indeed there is a conflict, because to some extent, in order to promote globalization, you have to attract foreign investment and foreign

capital and maintain competitiveness, particularly by having lower wages, restraining government expenditures, and not having high rates of taxation. But I think it is a false dichotomy. We know that countries which have been especially successful in globalization are those which, apart from having large markets, have a sound physical infrastructure and most important of all an educated, literate labour force, and therefore the social development that I am talking about contributes directly to the strengthening of institutions and of skills and human capital. I would also say that the international community and the process of globalization need to create space for some of these less developed countries to catch up in some of these areas, and this could be achieved through development assistance and through other kinds of preferences and arrangements which will enable them to catch up. But I find it difficult to accept that countries have to forego programmes of the type that I have mentioned because of globalization, because one thing that our research has shown is that the resources required for the implementation of these broad-based programmes are relatively modest and are within the possibilities of even poorer countries.

Moderator

That provides the bridge to the fourth question and the fourth panellist. Globalization, competition and competitiveness - what is the impact on countries, on factors, on people, the development impact of the process?

Professor Dani Rodrik, Professor of International Political Economy, John F. Kennedy School of Government, Harvard University

Where I will end up is exactly where Mr. Ghai ended up on this question which I would really want to underscore once again: those countries that have been successful globalizers have been

successful not because they have followed a strategy of globalization of trade per say, but precisely because they have followed a strategy of investment in human resources, investment in physical infrastructure and good governance.

To a fundamental degree, and this is to give away my punch line, successful integration into world markets, and this is what we mean by having a competitive economy, is the result of good development policies and successful development, and to the extent that we put the cart before the horse and think of globalization or successful integration in world markets as an objective in itself, I think we are setting priorities that are a little bit misguided. Now the question that was posed to me is whether success in achieving international competitiveness has had positive consequences for growth, employment and development. This is a question that, at one level, is a very easy one to answer. Surely, as you think of countries that have been successful in terms of international competitiveness, defined somehow, the handful of countries in East Asia that we all know and the more recent experience of Chile over the last decade and a half would clearly suggest that the answer is affirmative. Yes indeed, international competitiveness has had positive consequences for growth and development.

At another level, I think the question is a much more difficult one: what does international competitiveness really mean? I was very pleased to hear earlier that there has been a discussion of this, and the idea that economies compete with each other is something that is really a non-starter. That's not the right way to look at it. But how do we measure international competitiveness? Is this something that should be of concern to policy-makers? And if so, what would be the policy implications?

Here, as we pose these more specific questions, I think we confront a serious danger in how we think about policy and development policy; excessive focus on competitiveness or on trade strategy might actually be counterproductive to the extent that it

diverts attention from some of the more fundamental concerns that development policy-makers ought to have. I often think that policy-makers are in danger of evaluating national policies too much from the standpoint of success as regards integration and international markets.

Let me begin with the sort of broad-brush evidence which I just looked at before I got here. Suppose we take, as our benchmark for successful development, a growth of GDP per capita of 3 per cent or higher for the last three decades. There are about 110 countries in the world for which we actually have good comparable data on growth rates since the early 1960s. If we take this benchmark of 3 per cent growth per annum of per capita GDP over three decades as our criterion for successful development, only a quarter of these countries passed this test, that is 27 out of the 110 countries for which we have data. Indeed, it is the case that the vast majority of these 27 countries have also experienced short increases in their trade, not only in absolute terms, which is not that surprising, but also in relation to their national output; i.e. trade as a share of GDP has on average increased quite substantially in the vast majority of these successful countries. In fact, of these 27 successful countries, only four had lower shares of trade in GDP by the late 1980s than in the 1960s.

So this suggests that high growth and increased integration into the world economy go together. But now, let's do a somewhat different exercise and turn the question around and ask how many of these 110 countries actually had higher shares of trade in GDP by the late 1980s compared to the early 1960s? How many increased their trade efforts? How many experienced an increase in trade-to-GDP ratios? And now we are going to get a somewhat different answer. We now have 80 countries out of the 110 which actually experienced an increased trade-to-GDP ratio, but of these 80 countries a majority actually failed to grow at this rate of 3 per cent or better. In other words, of these 80 countries, 57 had per capita GDP growth rates that were below 3 per cent. In fact,

perhaps somewhat more surprising, if we take the top 10 countries in terms of trade performance (not the absolute value of trade, but trade as a share of GDP), six failed to grow at a rate of 3 per cent or better.

The message that I want to give is this - while it is exceptional and rare for countries to do well in terms of growth and development and not become more open to trade, it is actually quite common for countries to become more open and not experience meaningful growth. I think increased openness and trade competitiveness might be a necessary condition for growth and development, but it is really far from sufficient, and we need other things besides a trade strategy.

What are these other things? Lets look again at the evidence. If we take the post-war period as a whole and ask which are the regions of the world that have been more successful in terms of combining increased trade with high levels of growth, I think two regions stand out, namely Western Europe and East Asia. And when we look at their experiences more closely, we find interesting nuances, interesting aspects of their experiences which I think should inform the way that we evaluate countries' strategies as we look forward.

With regard to Western Europe, certainly its experience following World War II must constitute one of the most impressive achievements in economic history, given the destruction that took place during the Second World War, and clearly the subsequent growth of Western European nations was greatly facilitated by the possibilities offered by international trade and intra-European trade in particular.

Yet, as Governments in these countries took increasing advantage of trade, what is important is that they also erected an extensive network of social safety nets. Indeed, when we look at the experience in terms of the growth of the welfare state in

Western Europe, we find that the welfare state grew the most or the fastest in the countries that were actually the most exposed to trade, countries like Denmark, the Netherlands and Sweden. In many ways, the welfare state was actually the flip side of the open economy in Europe.

In East Asia, the miraculous growth of East Asian countries since the early 1960s has of course made these countries prime examples of outward-oriented growth. Yet I think that, when one looks closer at the experiences of these countries, one finds that the state played a critical role in a number of dimensions; investment and human resources have already been mentioned, but the state also played a critical role in coordinating and stimulating private investment in countries and territories like the Republic of Korea, Singapore and Taiwan Province of China; just to give you one example, very few remember that the state enterprise sector in the Republic of Korea and Taiwan Province of China actually accounted for a larger share of the economy during the 1960s and the 1970s than it currently does in India, an economy that we usually think of as being heavily burdened by state enterprises.

Furthermore, with regard to trade liberalization, in many of these economies, in particular the Republic of Korea and Taiwan Province of China, domestic markets were opened up to international trade only very gradually and over a period of three decades. Mr. Lizana mentioned that trade liberalization in Chile took place essentially over a period of five years, roughly during the second half of the 1970s. This is actually quite rapid by the standards of East Asian experience; two and a half decades or three decades after these countries started to grow extremely fast, by many measures their economies were not as open to international trade as the Chilean economy was after five years of rapid liberalization following 1975.

I think that the lesson from both Western Europe and Asia is that successful globalizers have had market-friendly Governments

but also proactive Governments. They have had adequate social insurance, and they have integrated into the world economy on their own terms. I think this lesson contradicts much of today's conventional wisdom that globalization requires small government, that welfare states have to be cut down to size and that there is a single Anglo-American model towards which all countries will necessarily converge. And indeed, the Netherlands provides a very good example of why this conventional wisdom is not correct in terms of tax ratios, in terms of employment regulations, in terms of the extensiveness of safety nets and the welfare state; despite quite a lot of reform in the Netherlands, you would never confuse the Netherlands' economy with that of the United States or even the United Kingdom.

It is true that globalization makes the constraints on Governments much tighter. As we keep finding out, financial markets stand ready to pounce on any Government that is perceived to be sacrificing fiscal prudence for broad development or social objectives or whatever.

And clearly, the increased mobility of employers across national boundaries makes it more difficult for Governments to tax employers and corporations in order to benefit labour or to expand social programmes. But I think, by and large, policy-makers are not nearly as shackled or constrained by global interdependence as they sometimes believe, and ultimately it is the overall quality of a society's domestic institutions, respect for the rule of law, good governance, social and political stability, adequate infrastructure and a skilled labour force, rather than wages or nominal labour costs or taxes, that determine where investments go.

In my view, a sustainable growth strategy has to stand on two other domestic legs in addition to the external strategy of liberalization and globalization. The first of these is a domestic investment strategy. In the end, it is investment in human and physical capital at home that produce growth. It is not trade, it is

not outward orientation, it is not globalization, it is not international competitiveness that raise growth, it is investments in human and physical capital and the inducements for doing so. Fundamentally, the East Asian economies grew at the rates they did over a long period of time because the Governments there cared about growth and they had an investment strategy.

The second domestic strategy that is very important as a complement is the strategy of social insurance. Globalization is a source of a lot of wonderful things, but it is also a source of turbulence, and it is very important to ensure that important segments of the population are not left behind in the process of market integration and rapid change; it is very important to have a social insurance strategy to ensure the social and political legitimacy of the process. Here again, Chile is a good example. When the newly elected democratic government came into power after 1989, one of its important plans was actually a promise on the social front, a promise to increase spending on social and poverty programmes to the tune of 2 per cent of GDP. This was viewed as a clear way of increasing the legitimacy of a long process of market reform which had taken place under an authoritarian regime, and to a large extent it was successful and was done in a fiscally responsible manner, so it was not just an increase in spending with no financing but an increase in spending with an increase in taxes.

To end, I think I will return to the point that I started out with. The danger with an excessive focus on globalization and trade performance from a development standpoint is that it will divert policy-makers' attention away from these other elements, strategies and internal domestic strategies which are more central to determining the growth and development process over the longer term than trade per se, and the countries that are going to benefit most from globalization are those that have these complementary strategies at home.

4. Follow-up discussions

Mr. Alec Erwin, Minister of Trade and Industry of South Africa, President of UNCTAD IX

It is good to be together with you again on this project of making UNCTAD into an organization that helps this massive reform process that all four panellists have been speaking about. What I would like to do is to see if I can draw together some of the threads that have been enunciated in a way that might help us to focus on certain key issues which, in terms of the process of bringing about change, could be important.

The one point that I do think is striking and was touched on in a way by Professor Rodrik's survey of the evidence is that, to some extent, globalization has features in it that tend to make us think it is some great new phenomenon, and it is the emphasis on the development of information technology, the ability to communicate across the world, that often makes us think that this is such a new process that we have to grapple with it from a totally new direction. What I would suggest is that this is not necessarily the case, and the reasons for this are twofold. Firstly, if you look at the changes in world history in the last century and in a part of this, then the industrialization process, the spread of basically capital production, was as powerful and probably in many respects even more disruptive for societies and countries than the globalization process is.

Secondly, if we take that into account, we might understand a little better what is required of countries to bring about changes. I want to suggest that, to some extent, the problem for the developing countries is that they have to recover their economic and political sovereignty in a period when the economic pressures that they have to confront have qualitatively changed. For me, one of the defining features of the current processes, which started

towards the last quarter or third of this century, is that the changes in production processes brought about by information technology and the speed with which knowledge is now available have generated new pressures in terms of the whole question of what sustainable economic activity is. Previously the difference between tradeables and non-tradeables was clear, and the questions that nation States had to confront in relation to generating economic activity within their borders were somewhat more isolated. Now, every economic activity can be called into question by changes elsewhere in the world. With the global market, but more important still the change in modern production processes, I think the challenge for the developing countries is not so much what sectors they are going to focus on, for example tourism or agriculture, but being able to carry out economic processes using new production methods. I think that is the essential challenge facing us.

What we are confronting is countries that are coming out of a period of profound economic domination, and here I speak more of the developing countries, into a world environment where the economic challenges are different. This requires major reforms at every level of society, and the problem that countries face is that it is not easy to carry out a reform if you are in political situation that is fragmented, divided and weak. This is particularly a problem when, almost inevitably as you restructure an economy, the first effects will be negative.

I want to suggest that the challenge faced is not only determining the proper prices of tradeable goods; it actually involves a realignment of the pricing system, and that applies as much to the provision of social services as it does to tradeable products. Here I would like to support strongly the point that reforms cannot and must not focus only on macro-economic policy and trade. The conventional wisdom that argues that, I think, is an error and has dangerous effects on developing countries. The challenge is really to bring about a realignment of the socio-

economic system, and it is not possible to develop a large welfare state using the traditional mechanisms alone. New challenges are there, and I think it is absolutely fundamental that reform must bring about new social institutions as well.

Will we need a new forum, as suggested by Mr. Ghai? I am not so sure. I would say that the biggest problem we face at present is a persistent division between what is seen as economic reform and what is seen as social change or human resource development. This is, I think, an error, and as a result we have no serious interaction between those international institutions that focus on economic dimensions and those that focus on socio-economic dimensions. In my own country, we have steadfastly integrated these programmes into one policy programme, the reconstruction and development programme. We have had to resist measures that try to force us to divide our efforts into economic measures, i.e. growth, now and development later.

The next point that I would like to make is that I am not so sure about the proposition that competition only takes place at the enterprise level or sector level and that economies don't compete. I am not sure that is the case. I think what you are seeing, as was correctly pointed out, is that regional development is becoming one of the major responses of the developing countries to internationalization. And a close look at MERCOSUR or our own SADEC or ASEAN will show that, as Mr. Ghai pointed out, these are attempts at profound economic cooperation. They are attempts to realign the socio-economic interaction between nation States, and if you look closely, the purpose of regional integration is really to get sufficient weight and size to be part of certain sectors. You will not be an automobile producer if you are not part of an economic zone these days. You will not be a successful producer of electronic components unless you can bring about a degree of rationalization within a regional zone. And I think that applies to a number of industries. In a sense, economies have to begin a regionalization process in order to be competitive. I would agree

with the points made by Mr. Souty that we must make a distinction, though it may be difficult, between competition policy and the actual legislation that is utilized to bring about changes. In our own experience in South Africa, we have come to the conclusion that bringing about a more competitive economy requires major reforms within the whole corporate legislative structure and within financial markets as well, so that competition law is one instrument in an overall package of corporate law reform and competition policy. This is a real problem for many developing countries or LDCs, since the degree of institutional change is considerable, and if the political will to carry out change is not there, change will not happen.

Let me then agree that globalization is an opportunity and a danger at the same time. I don't think that single countries, particularly in the developing world, can make gains out of globalization unless they work in a regional context. For small countries, it is exceedingly difficult to respond to and benefit from globalization unless they begin working closely with their neighbours. I think this is true for economies such as South Africa, most of the ASEAN economies and Latin American economies.

Another lesson that comes out of this is that the need for good governance is not just something that we have to introduce because it has become part of some so-called consensus. The need for good governance arises from the fact that you have to bring about a major socio-economic transformation in your economy and your state, and it is not possible to bring about these major transformations unless there is a considerable reorganization of government. What we are seeing is that, to respond to the greater access to knowledge, based on improved information technology, States have themselves to become transparent. It is not possible to be opaque when anyone in your society can turn on the television and see BBC World or CNN or something like that. These kinds of pressures are forcing States to be more transparent, they are forcing States to be more democratic. So transparency in the

context of governance is not just a good thing to do; it will be forced on Governments, and how they respond is the key issue they face. With regard to the reorganization of the state, the latter has to play new roles, but it cannot withdraw from its responsibilities in the social arena. The trouble now is that, in the social arena, the state has to use business-like and modern production methods to produce effective social services, and that requires the state to become more business-like. It cannot rule by bureaucracy alone; the demands on the efficiency of the state are so considerable that it too has to become a more intelligent, thinking state, following practices that are more closely associated with business.

These are major political challenges, and I think for most political structures, the real challenge is how to re-establish sovereignty. This is very true of developing countries. How do you take responsibility for your nation, your people? This is a very difficult challenge for many States; those who manage will become successful, while those who don't condemn their economies to stagnation.

If I could summarize, it seems to me that three points might emerge from all this. One is that the role of this high-level forum must be to help establish an effective integration of economic and socio-economic change, and to the extent that our international institutions exacerbate the division between them, we must take corrective action. Secondly, I think we must be very cognizant of the fact that these reform measures are not something to which you can apply a text book formula, and the reason for that is that they require a profound political transformation of the state. And that leads to the third point, which I think this high-level forum is designed to achieve, and that is that we must have new processes in the negotiations on multilateral agreements. It is not possible for certain countries to see the need for competition policy, for example, and then say that their particular set of viewpoints would have to be translated into a multilateral agreement. We have to go through the kind of process that we are not going through.

We need a theorical identification of the problem, an identification of what actual steps are required, and a dialogue defining the possible agreements around competition policy, for example, that could be incorporated into a multilateral agreement under the WTO.

Mr. Pedro Lizana

I would like to underscore what was said about changes in productive processes which have been brought about by computers. Basically, this new technology has produced greater mobility of resources, that is all. Today things move faster, because to mobilize resources you need information, and this information is now available instantly and not six months later or not at all, as used to be the case.

Mr. François Souty

I would like just to add that, in terms of competition authorities, I have to agree. I talked of a liberal system to define a competitive system. There has been a lot of thinking in Europe recently around the idea of economic liberty, and I think that is the guiding spirit for a number of competitive systems in Europe. But it is part of freedom as a whole, and I think that it squares perfectly with the idea of competition law and policy. What I said was implicit in that: any system of economic freedom or total freedom is based on a state of law, and I think that has been perfectly summed up. Competition law and policies fit in perfectly with today's subject, and I am very happy to see that.

Prof. Dani Rodrik

Just a brief reaction to the statement that regionalization or regional strategies are very important for becoming successful on

a global scale. I will draw a distinction here which I think is in the spirit of what was said and is perhaps mainly a clarification. There is a distinction between the kind of regionalization, i.e. expansion of regional trade and investment, that is likely to take place on its own, naturally, without actual preferences being given to regional trade partners at the level of national trade policy, or regional integration in the sense of removing artificial obstacles, for example transport bottlenecks and communication problems, that prevent trade or investment flows among regional partners that would otherwise naturally take place, and providing regional preferences, having two sets of tariff schedules or maintaining QRs and other restrictions vis-à-vis the world, but having a much more liberal scheme vis-à-vis your regional partners. I think the argument in favour of doing the first kind of thing, by which it is sought to underscore the expansion of regional trade that would naturally take place, is quite important, and there has been a lot of trade within East Asia, for example, that is a result of these countries trading more naturally; it has not been supported or stimulated by regional preferences. If the EU has been a success, it has been to a large extent because individually the EU members have had relatively open trade policies vis-à-vis the rest of the world. If MERCOSUR today is a success, it is again to a large extent because MERCOSUR members have relatively quite open policies vis-à-vis the rest of the world. I think this is an important distinction in terms of regional integration. To what extent you would actually want to encourage this by actual policies of regional integration in the sense of having preferences, that is a little bit more controversial.

Mr. Rubens Ricupero

I want to react to the last point made by Professor Rodrik, because sometimes when people talk about natural regional cooperation, they assume that the necessary infrastructure conditions and historical conditions are present worldwide. He has

rightly pointed out that it would be useful to try to remove artificial obstacles like lack of transportation, but there is another dimension that you have to consider. Take the case of Latin America, for instance. The current situation, in which our trade flows have always been North-South, is not something that you would call natural; it is a consequence of our history, and our history is a consequence of four centuries of colonization. If you take the case of my country, Brazil, we have 10 different neighbours, and up to now, and we are on the eve of the year 2000, we only have land communications with very few of them. There is no way you can reach French Guiana, Suriname or Guyana by land, it is very difficult to reach Venezuela, and there is no way you can reach either Colombia or Peru, although we have land borders in some cases of 3,000 kilometres. Why is that so? Because Brazil was a colony of Portugal, the others were colonies of other powers, and at that time, which was a time of mercantilist capitalism, the basic principle was monopoly of trade. We were forbidden from trading with our neighbours during the time of Spanish and Portuguese rule; most of the trade between the south of Brazil and what are now the Plata countries was considered smuggling and was severely punished. There was even some degree of anti-semitism, since most of the traders on the Brazilian side were new Christians. It is only now that we are trying to establish those links. If you look at the matter as some analysts have done in Washington and if you only concentrate on the economic figures, you will probably say there is some degree of artificiality, but where does the artificiality start - now or three or four centuries ago? Some years ago I travelled extensively in Africa, and I noticed that the French-speaking countries only had communications through Paris, the others through London. Is that a natural thing when they are neighbours? So, you have to take that matter into consideration when you speak about regionalism. We are now going back to what should be natural, but the heritage of history has to be considered in this context.

Mr. Alec Erwin

I think the point that we very briefly touched on and which Mr. Lizana mentioned now of the effect of real-time knowledge and the changes in the speed of production is something that may deserve a lot more attention. For many economies, the previous process of industrialization relied very heavily on the monopolization of knowledge and the monopolization of technique, whereas this is more difficult these days. I think this is very important. In concrete circumstances such as ours in South Africa, unless we integrate our information and telecommunications systems rapidly, we will not benefit from the advantages this can give us. The real danger could lie in an inability to adjust to this immediacy of knowledge or techniques, and this would produce the final marginalization. As soon as the necessary adjustments are made, new possibilities begin to open up.

I would also like to make some similar comments on regionalization. Where I think we agree is that, if regionalization was based on internal preferences designed to generate rapid growth and exclude other parties outside the region, that logic is clearly fatally flowed. Regionalization would have to be part and parcel of the general liberalization, and I don't think it is possible to do otherwise. I think the points made by the Secretary-General are already fundamental. Southern Africa is in an identical position; there is a case for degrees of preference in our particular circumstances, and we will certainly give those preferences to our neighbours. To take just one possible example, our neighbour Zimbabwe produces excellent cotton, and our textile and clothing industry, particularly in respect of higher-quality products, is actually expanding, which is surprising these days. It would benefit the region and both our abilities to trade if we in fact purchased far more cotton from Zimbabwe, but we should go one step further: instead of purchasing the cotton, we are very keen that cotton processing should take place in Zimbabwe. That would establish and protect the manufacturing base, improve our competitiveness,

and begin improving their competitiveness. I think this is a case where some degree of preference is important, but not preference at the expense of the rest of the world. The one thing we continue to lose sight of is that the existing strength of the Republic of Korea, South-East Asia and many other areas is based on a careful industrial strategy. The important thing is that the industrial strategy was focused on becoming an international player. Our options are not quite as free and easy these days, and we have to be more sophisticated, but to deny that there must be some degree of preference amongst groupings of developing countries forces them to lose many of the possible synergies of economic activity among themselves that are fundamental for all of them to grow.

Mr. P.P. Prabhu, Commerce Secretary, India

I would like to confine myself to one issue only, that is global efficiency and competition policy. We believe, of course, that competition is very important for the development and growth of the economy and that trade liberalization and open investment policies can play a significant role in creating contestable markets conducive to competition. We believe that benefits can be derived from globalization only so long as fair rules and practices of competition operate in industrial business. However, globalization in world trade is driven by the twin forces of technological advancement and liberalized trade and investment. Neither automatically ensures greater competition. Technological advancement in fact provides companies with the capacity to form mega monopolies. The spate of mergers seen recently among major companies of the world shows that globalization needs government regulation to control possible restrictive business practices of companies to ensure free and fair competition.

The Secretary-General of UNCTAD has said that competition will lead to the survival of the fittest. But trade liberalization, especially liberalization of imports and foreign direct investment,

also exposes small enterprises in developing countries to unequal competition with large companies. This can easily wipe out smaller enterprises, especially if larger companies resort to predatory pricing and misuse of economic muscle. Such reductions in prices may appear very attractive in the short term, but in the long term it will be against a country's interest because it will reduce competition and can lead to social tension due to unemployment, closing of companies, etc. We believe that there is need to develop a competition regime, introduce anti-trust laws and strengthen competition authorities to be able to prevent such anticompetitive practices.

We face a dilemma in a country like ours because we have to refine our competition-policy-related measures. In a liberalised environment, one would expect domestic firms to grow in order to face external competition. The existence of large domestic firms may be desirable and in the national interest. It is also logical for domestic companies to merge to face international competition. In such a scenario, it may become difficult to distinguish between mergers that encourage competition and mergers that impede it.

It is therefore necessary for policy in respect of globalization to take into account the fact that the pro-competitive effects of trade liberalization can easily be marginalised by a variety of factors, as seen today, mainly non-tariff barriers like anti-dumping and countervailing duties, quotas and various other restrictions, standards, specifications and so-called technical barriers. Agriculture has been mentioned as a very important source of economic growth for LDCs, but it could easily be blocked by the introduction of artificially high standards.

Thus we feel that, on the trade side, elements of competition policy should encompass measures pertaining to anti-dumping, countervailing and safeguard actions, quotas, rules of origin and other restrictive practices. The broad approach to competition policy should aim not only at promoting reforms of governmental

regulations where they unjustifiably distort competition but also at curbing measures which create barriers to market entry.

And lastly, let me echo the important point that globalization and trade liberalization or even the promotion of competition or the development of a competition policy should not be an end in itself but should ultimately result in more employment or overall economic growth and development and, most important, improvements in the living standards of the masses.

Ambassador John Weekes, Permanent Representative of Canada

I must say it is with some trepidation that I take the floor after such a rich and high-quality discussion. I think that if I draw one impression from what has been said, it is that there are no simple answers to any of these questions. But I think the discussion actually makes an excellent backdrop to next week's high-level meeting on the developing countries,[2] and I think we are fortunate that we will have you as the Chairman of that meeting as well as the Chairman of this high-level session, and we are also fortunate that UNCTAD, of course, is one of the key organizations participating in next week's meeting. It seems to me that that meeting will provide a practical occasion at which to take the information and ideas that are coming out of this discussion and putting them to practical use.

We are always searching for ways to further improve the functioning of this organization, carrying forward the reforms made at Midrand, and I must say the session this morning has been of such a high quality and so stimulating intellectually that I began to wonder if it would not be better to have had this session at the beginning of the Trade and Development Board, rather than at the end, so it could have had the effect of providing a high-level input into the deliberations here in Geneva.

Let me offer a couple of comments and reactions to some of the points that have been made during the discussion. First of all, I would like to offer an observation on globalization and on the extent to which the phenomenon in a sense is already upon us. As many of you know, my background is particularly in the trade area, and I would be the first to admit that trade alone is not going to provide all of the answers, but recently I looked at the 1996 WTO annual report, which has some very interesting statistics showing exports as a percentage of gross domestic product for a range of different countries. One of the categories shown was developing countries excluding oil exporters, and the average ratio of exports of goods and services to GDP rose from 10 per cent in 1970 to nearly 30 per cent in 1995. What is most interesting, and I really don't know what to make of it, is the fact that, for developed countries as a whole, that figure is about 20 per cent. So you have a situation where for developing countries on average, and maybe averages are always dangerous, exports now form a larger proportion of GDP than is the case for developed countries.

The last point I would like to make concerns marginalization and some of the observations made on regionalism. I have had some experience with regionalism, because I am the Chairman of the Committee on Regional Trade Agreements in the WTO, and in a previous incarnation I was the chief Canadian negotiator for NAFTA. The thinking here today has been somewhat along the lines that there needs to be more regional cooperation among developing countries, particularly involving some of the least developed countries, in order to help them with the initial stages of economic development, and I can see there are some strong arguments that would support that.

Another point that has been made in the discussion is that we have seen the erosion of some of the preferential benefits that have been enjoyed by developing countries through the process of multilateral liberalization in the Uruguay Round and other multilateral negotiations.

The final point is, I think, that the real threat to eroding preferential benefits will come not through the WTO but rather through the major initiatives to build new regional free trade agreements in the Americas and in the Asian/Pacific region and for the further expansion of the European Community. Less and less trade is taking place on an MFN basis in the WTO framework, and I think these big new regional initiatives perhaps pose an even bigger threat for the marginalization of some of the poorer countries and need to be taken into account.

Ambassador Miguel Berthet, Permanent Representative of Uruguay

First of all, I would like to congratulate the Secretary-General of UNCTAD for the most excellent initiative he has taken in convening this High-level Segment. Within the general framework of our discussion, I think we can say that we agree with what has been said. Specifically, I should like to ask Mr. Lizana about the experience of Chile. Mr. Lizana gave us a very interesting statement, since it was practical and very frank. Specifically, in a number of cases in developing countries, we have noted that opening up trade did not lead to a drop in the prices of consumer goods in a useful time frame, and we observe a tension in the market which prevents prices from dropping and prevents them from changing, so there seems to be a dichotomy. On the one hand, we have a beneficial macroeconomic effect - inflation begins to be checked and is reduced - but at the same time this macroeconomic benefit is not perceived as profitable to the population, either to families or to individuals, and in the end, socially speaking, there seems to be a reaction against trade openness. This is a well known idea, the topic has been studied by economists, and I would like to ask Mr. Lizana what his experience is in this respect; what happened in Chile, and what was done in an attempt to tackle this?

Mr. Pedro Lizana

First, we saw that retail prices on all imported goods went down very rapidly. Obviously, in countries that are semi-open, imports are in a way monopolized, but after a couple of years, as new importers appear and even new producers, some of whom become importers, prices go down as a result of competition. But more important is the increased income for the population, because there is an increase in exports. What is important is that the lowest incomes should rise, and in Chile, that is what happened.

Ambassador Miguel Berthet

If the response given by Mr. Lizana answers my question, it does so inasmuch as he mentions time; there is a time lapse of two or three years, which means that, from the point of view of government policy, it is necessary to allow for this period of time before the beneficial effects can be perceived by the population.

Mr. Kassahun Ayele, Minister of Trade and Industry of Ethiopia

First of all, I would like to express my congratulations to UNCTAD for such a high-quality discussion. I would like to pose a question again to Mr. Lizana, whose presentation was quite practical and exemplary for many countries. He stated that subcontracting among enterprises is a solution to remove constraints in development, and I fully share this opinion, but I would like to state that in countries where such a system has never been practised, uncertainties between enterprises prevail and prevent the implementation of the system. On the basis of your experience in Chile, what exactly did your Government do to do away with such uncertainties and to make it possible for the system to be implemented positively and effectively?

Mr. Pedro Lizana

I think the most important aspect of subcontracting is that it leads to growth and enhanced productivity as a result of specialization, which is the very basis of progress, which is why humanity has progressed ever since man began working on the basis of a division of labour. If we translate that today, the aggregation of enterprises and specialized technology can be more efficient and productive, and the same is true in the case of States. As the state subcontracts activities, it becomes much more efficient, it costs less and becomes more cost-effective. How can we encourage this? We have some central offices that deal with subcontracting, under the auspices of UNIDO, but the main thing is that there should not be double taxation and there should be no possibility for the formation of monopolies of workers between the main enterprise and its subsidiaries, because the advantages would then be nullified. Subcontracting should provide very open competition; it should stimulate such competition and produce long-term and medium-term contracts, so that the subcontractors can develop. For this to happen, contracts should cover one or two years, whereas with the present system, where most large enterprises purchase on a one-off basis, it is impossible for small enterprises to develop technologically, because they have no security for the future. If they have longer subcontracts, these can be used as guarantees for financing, and this makes it possible for enterprises to progress. I think in our countries, it is not so much the technological delay that matters, it is the transfer of technology to the different enterprises. Part of the technology can be passed on to small enterprises from large ones, but we have to improve the network between the large companies and the small ones.

Mr. Georges Wohlfart, Minister of State, Ministry of Foreign Affairs, Luxembourg

I would like to note with satisfaction the exceptional level of the debate and its very great frankness. This is the first time that things have been described as they are in such a forum. We have heard a lot about foreign investment but not much has been said about employment. I am well aware that one needs foreign investment in order to create employment in the service and industrial sectors. However, how do the experts here see the emergence and the importance of sectors such as agriculture and arts and crafts in developing countries? I think these sectors can play an essential role, just as in the economies of our industrialized countries, which are highly advanced. The real handicap in developing these two sectors in my view is the lack of access to credit, because normally the people active in the sectors don't have access to commercial credit. So my question is whether there has been positive experience in micro-financing and whether this should be one of the paths to be explored in order to promote arts and crafts and agriculture, which could generate considerable and massive employment.

We have talked about rather modest loans to small firms, and these are not easily pursued, but thanks to UNCTAD, my country has been able to set up an investment fund in Luxembourg itself with the help of our financial institutions. Through UNCTAD monitoring and with the assistance of local NGOs which are specialized in financial matters, the fund makes it possible to provide credit at acceptable and proper rates to potential micro-firms. In this connection, I have a very frank question for you with respect to the informal sector in developing countries. This sector is a reality, but I do see that in our discussions, whether at the international level or within the European Union, we always talk about the private sector; I really don't know why we avoid talking about the informal sector, which does have an extremely important role to play in the economies of developing countries.

My second question concerns the regional approach, and the Secretary-General of UNCTAD did explain the historical reasons for the nature of intraregional trade in his region, between Brazil and its neighbours. If I understood correctly, in a regional approach and in the establishment of free exchange zones, there exists a danger for the least developed countries. Now, I can to a certain extent go along with this analysis, but I would say that the regional approach and integration on a regional basis can also represent a potential for development; examples of this are SADEC and MERCOSUR. I would be grateful for your comments on this approach.

Mr. Dharam Ghai

I think the Minister is absolutely correct that, from the point of view of employment generation and poverty alleviation or eradication, many countries, especially the least developed countries, cannot afford to neglect small-scale agriculture and small-scale manufacturing or handicrafts in the informal sector. It is very difficult for many of these countries to expand or grow out of their problems by relying on what I call the island models of industrialization, involving small city states, where it is possible to generate employment through large-scale or other industrialization. So they have no choice but to focus on this sector. The question of credit is also very important. We now know from experience in many parts of the world that what has been called micro-finance or micro-credit can be a very important instrument for employment generation, income enhancement and poverty alleviation, and there are many successful models. It is on the basis of these successful models that we had a summit last year to focus on the expansion of such credit to sectors, communities and individuals. I do feel this is one of the more promising approaches at the national and global levels to pursue in the years to come.

Mr. Auguste Paraina, Minister of Trade of Madagascar

I would also go along with the previous speaker in congratulating UNCTAD for organizing this meeting. I would like first of all to refer to a question that I am really concerned with and which my country is concerned with, and that is setting up competition. I was very pleased to have heard Mr. Souty say earlier that laws and competition have to take into account the specificity of each country. Now, we do have problems in our countries, and we have structural adjustment policies developed with the Bretton Woods institutions, namely the IMF and the World Bank. We are compelled to simply remove from our competition law safeguard clauses which are to be found in agreements of the WTO. So what we are suggesting is a harmonization of viewpoints between the Bretton Woods institutions on the one hand and UNCTAD and WTO on the other.

My second point relates to competition law. Are underdeveloped countries still obliged to copy the developed countries? For example, should the authority in charge of competition always be an independent private organization, because it is our belief that the state still does have a role to play as an authority in charge of competition. With regard to regional cooperation, here again we have a problem, being a country engaged in structural adjustment. In terms of regional cooperation and integration, the Indian Ocean Community and the countries therein are trying to lower tariff barriers as much as we can. However, given the fact that we have structural adjustment programmes, we all have other priorities, including balancing public financing.

Mr. Rubens Ricupero

Let me only tell you what I heard two days ago from Mr. Gerald Helleiner from the Department of Economics in the

University of Toronto, who helped us as an expert and is continuing work with the Group of 24 within the World Bank and the IMF; he commented that in the OECD community responsible for foreign assistance, in Bretton Woods institutions and in meetings of bilateral donors, you hear the word "ownership" everywhere, meaning ownership of policies, but one is not practising what one preaches. Either we have to change what we say or we have to change what we do. Organizations don't impose conditions in a capricious way but because they are convinced that otherwise the desired results won't be achieved. I think that an organization such as ours, even if it does not have the power to impose conditionalities, and in fact because of this, is well placed to try to build consensus, as we have seen this morning. To give you an example, quite recently Latin American countries preparing for negotiations on the free trade zone asked UNCTAD to assist them in technical cooperation matters with respect to competition law, and one of these major organizations reacted in a very negative manner because, unfortunately, at the international level, to be honest, there is an attempt to establish a sort of monopoly over the type of advice given.

Mr. François Souty

First of all, I would like to thank the Minister of Madagascar for the question he raised. I would just say that India also asked two very interesting questions with respect to competition policies, and both sets of questions really overlap. I would like to start with the last question first. I did not say that competition policy was implemented by private bodies. I represent the Competition Council, which is a public or state body and works for the public benefit. So yes, there is a role for public powers in the implementation and administration of competition law. I do not believe that competition law is managed by a private body anywhere in the world, and I am virtually certain of what I am saying. On the other hand, for competition authorities, they need

to set up conditions allowing free choice and freedom of action for economic operators and creating optimum conditions for the freedom involved in this exercise.

This having been said, it was asked quite correctly whether we necessarily have to follow the models already used elsewhere. One might feel that the trend towards globalization and the creation of world monopolies, as the distinguished Minister from India pointed out, would be a very serious problem for fragile economies. The Minister also wanted to know about small and medium-sized enterprises, which are exposed to unfair competition given their very powerful competitors, and there is also a question which was raised with respect to control of mergers on an international level. These are, of course, highly complex questions.

Here I would like, Mr. Secretary-General, to do some promotion for UNCTAD in that, at the end of November, there will be an Expert Meeting on Competition Law and Policy in UNCTAD, which will be followed by the session of the Working Group on Interaction Between Trade and Competition Policy in WTO. At the Expert Meeting, we shall be dealing with vertical and price restrictions, and we shall have specific proposals for small and medium-sized enterprises. This will, of course, have to be given detailed and careful scrutiny.

I wish to conclude by saying that, with respect to merger control, historically merger control started 20 to 30 years after control of anti-competitive behaviour was to be observed in various countries; this was the case in the United States and the European Union.

Representative of Poland

I think that our country could be a good example for one question. Freedom, in the sense that the level of tariffs is very low

and sometimes zero and there are no formal obstacles to market entry or to business development, does not necessarily mean that the market will develop. Many countries still do not have an active working market, and their economy consist of a complex system of cooperation, not necessarily formally established but sometimes involving the mafia and the like.

It seems to me that this problem could be represented as follows: the market is able to save a good working economy, but it is too abstract a term to induce individual initiatives to create economic unions. The capitalist system has not only market institutions but also market traditions, market patterns and business patterns as well. In our country, such experience is available only in books. One of the most important issues was therefore to establish a good pattern of business activity, and in our country we succeeded in replicating such a pattern. But I do not have much trust in government activities in this field, and it seems to me that the dissemination of business activities and market institutions could take place independently. This is my question to Mr. Lizana - it seems to me that the best platform for transposing these patterns to a new market economy could be the business association - how do you evaluate such organizations and their contribution to the development of a market economy?

Mr. Pedro Lizana

I think that schemes and patterns cannot be easily transposed from one country to another, but if you establish contact with people who are really involved, the solutions are very simple. I think that the informal economy is a great advantage, a great benefit to a country; it has to be formalized, but it is much better to have a strong informal sector than not having anything at all. You should make it cheap and easy to be formalized, but the informal sector is very important. A famous professor of administration, Peter Drucker, says that when you want to improve productivity, you have to go and see people who do things.

Ambassador Saodah Syahruddin, Deputy Permanent Representative of Indonesia

After listening to all the panellists, we can see that the current stage of development is characterized by disparities. Mr. Dharam Ghai said that our globe today is still facing the need for good food, clean water, housing, education and long life expectancy, while on the other hand we face globalization and liberalization of the world economy which have brought keener competition for trade, investment and new technology. To the extent that liberalization has accelerated the growth of international trade, it can be expected also to improve the growth prospects of individual countries. Yet, at the same time, some developing countries, especially the structurally weaker and more vulnerable economies, have been confronted with short-term difficulties and even the risk of marginalization. We hope for global partnership and cooperation to assist countries facing structural impediments to overcome poverty, to cope with unemployment problems and to pursue their development objectives.

I took note of the presentation of Mr. Lizana, who mentioned the need to increase income-generating capacity, but for some countries the problem is not merely income-generating capacity. They are affected by the international economic environment, which is beyond their control, for example volatile foreign exchange rates and world commodity prices. I would like to hear the view of the panellists on how this problem can be overcome, taking into consideration that most of these countries live off commodities and natural resources and some countries are also affected by this exchange volatility.

Prof. Dani Rodrik

I think this is an extremely pertinent question. In fact, it is very much at the heart of a lecture I am giving at UNCTAD

tomorrow morning on the question of the volatility of the external environment and its impact on the developing countries. First of all, one has to live with it - that is the obvious answer. It is going to be around, and the answer is not going to be to close off markets. But when we look at the experience - and clearly the 1970s was a period when the volatility of the external environment was especially marked, and that was followed by a collapse of growth in a lot of developing countries, particularly in Latin America - what we can see from the evidence is that the countries that were better able to cope with the shocks emanating from the world economy had a number of features in common, and those I can summarize under two headings: one is the extent of existing social disparities, and we can think of income inequality or various other measures of social cleavage in an economy. And those are to a large extent given things that one cannot do anything about. But the second determinant governing how different countries reacted to these shocks is very much man-made and can be affected, and I am referring to institutions of conflict management. Countries that had better institutions of conflict management did much better in handling the shocks of the 1970s than countries that did not, and these institutions come in various forms. I think democracy is the ultimate form of institution of conflict management. Countries that had personal liberties and political rights did better in dealing with the shocks than countries that did not. Countries that had better bureaucracies did better. Countries that had institutionalized forms of social insurance did better than countries that did not. I think these are some of the things that have to be underscored, i.e. the need for complementary domestic institutions to deal with these shocks that are going to emanate continuously from the world economy.

Representative of Egypt

I have two very brief questions, one for Mr. Rodrik and the second for Mr. Souty. Mr. Rodrik warned us of the excessive

violence of the market process. He indicated that financial markets do not have mercy on Governments that do not exercise fiscal prudence. He also addressed the issue of social safety nets at the national level, and my question to Professor Rodrik is whether he thinks we need additional safeguards at the international level to deal with the implications of globalization.

My second very brief question to Mr. Souty is related to competition policy. He talked about the misuse of dominant positions and referred to restrictive business practices and mergers, and we have recently witnessed different competition authorities reaching dramatically opposed views on whether mergers enhance or restrain competition. In the light of the globalization and liberalization processes, my question to him is whether, in his opinion, we can rely only on national policies related to competition or whether international rules are necessary in this respect.

Ambassador Werner Porfirio Corrales Leal, Permanent Representative of Venezuela

I would like to congratulate UNCTAD on its initiative in organizing this session. I will try to be very brief. From the successful experience of Chile, as well as the South-East Asian countries, can we categorize and say what share of success is attributable to liberalization and what share to policies?

My second question is - what type of public policies do States pursue internationally and nationally?

I shall refer to three examples only of cases which have been mentioned as successful. With respect to the objective of developing the domestic market, competitive services and goods, and proper allotment of resources, is it enough just to deregulate and liberalize access of imported goods and services and liberalize

the domestic market? Should you not have additional regulations from the state when it comes to competition policy, and do you not also need active policies, since just to promote liberalization of market forces is not enough? What type of active policies promote competition in supply and distribution? It is not enough to have multinationals. You have the experience of many countries in Latin America, for example Bolivia, Peru and more recently Venezuela, with the introduction of a new player, namely cooperatives, distributing food without any kind of subsidy, which means that there is a new factor of competition that improves cost effectiveness and value or money and helps low-income families.

The second example refers to the objective of raising the level of savings and productive investment. Experience in Latin America demonstrates that the mere liberalization of market forces, although it has helped to raise the surplus of enterprises, has not automatically led to greater investment, and the only successful experience of converting savings into greater investment is Chile. Chile not only liberalized its market, but it implemented active policies similar to the ones which existed in the 1980s in Asian countries - forced savings, use of pensions for capitalization. This is an active policy which also helped to protect against excessive vulnerability to capital flows. Since the 1980s, Chile has also implemented active policies which to some extent control the outflow of capital.

The final example involves a comparison between two different ways of dealing with competition policies. One way is to increase the competitiveness of exports and that is all. You can use deregulation policies for openness and macroeconomic policies to manage exchange rates so that exporters achieve competitiveness, but this approach is now exhausted and the Latin American experience shows this. The effects do not last. Mr. Lizana said that he was worried because foreign investment flows were very large but the exchange rate of the country had gone up and exports were thus disadvantaged. However, if the problem is tackled

through active policies of productive transformation which help technology absorption, competition policy will certainly have more lasting effects. In short, I want to say that there is a possibility of pursuing domestic policy which complements liberalization of the market.

Mr. Dharam Ghai

I just want to make a few remarks about regionalization. I think the emphasis is still too much on trade creation and removal of trade barriers in the context of regionalization. Regionalization or regional cooperation can comprise many other elements; it is often a political project, with strategic concerns and implications for transport, communications, power and social issues too. At the moment, we have two models. The European Union is one example of regional integration, where all these elements are locked together, while the North American Free Trade Area is different in that it is largely trade-oriented. It seems to me that in the least developed countries and developing countries, perhaps it would be better to aim at the broader kind of regional cooperation comprising economic, trade, and political aspects and strategic issues and questions of communication and development.

Mr. François Souty

There is no simple answer as to whether there should be international rules or not. What cannot be denied is that, as shown by our discussion this morning, it is necessary and useful to have microeconomic competition policies. This is the point made by the representative of Venezuela. All I would say is that there are synergies between national and regional policies and the international debate. And I don't think that that debate will make much progress unless there is discussion and action at the national level.

Mr. Pedro Lizana

In this dilemma of regionalization versus globalization, I think if regional agreements do not have a built-in calendar of globalization and cooperation with the rest of the world, they are as dangerous as a closed economy. When you speak of active policies, you are asking a group of individuals or an authority to decide arbitrarily which sectors they are going to promote or develop, and that is very dangerous. They might twist the market around and make it operate in an inefficient way. Active policy should mean the organization, for instance, of private pension funds, etc., and creating a series of mechanisms which help the market to work better, but not have them decide on which way the market will run.

Prof. Dani Rodrik

Let me respond very briefly on the question of international coordination versus national policy, specifically as regards issues of social safety nets. I think there is a role for international coordination, and there are two aspects in particular which are badly in need of rethinking. The WTO Agreement on Safeguards badly needs to be reformed, and I think there is also a lot more thinking to be done on international cooperation and coordination in the area of corporate taxation. But I think the main action really remains at the level of national Governments, and I think it would be a mistake to look to the international level, whether to WTO or anywhere else, in order to solve one's own problems. In the context of social safety nets in particular, if I can use the example of Egypt, where public employment has been the welfare state choice, it is now obvious that this is too expensive. Furthermore, it is not targeting the right people; the people you want to target are not university graduates, who are middle class - they are not the ones in need. The international community can help you by providing financing for adjustment, but the problem really has to

be solved within Egypt in terms of coming up with better targeted forms of social safety nets. So for all the talk about globalization, the reaction generally in this area really remains at the level of national policy.

Mr. Alec Erwin

It seems to me that, if we look at the question of jobs, jobs, jobs, given the difficulty and challenge we now face in providing jobs, jobs, jobs, we probably need very much more sophisticated strategies in both developed and developing countries. And there, I am convinced that it requires Governments at the national state level to be able to form new types of partnership. Governments are going to have to work very closely with the business community, with social groups and with civil society for two reasons. One is, I think, to understand better the needs of business and communities, so policy propositions can be translated into effective actions, and the second is to ensure that societies hold together in this process of transformation.

Very briefly on agriculture and crafts, one thing is important here. If, in agriculture, the beneficiation of products must be given a lot more attention, and here I think there are tremendous opportunities to utilize the knowledge available through modern farming methods, the possibilities for marketing products could be expanded, but this requires countries to make sure that people can get access to market knowledge. Credit too is important, but it wont be helpful if they are no market possibilities.

In crafts, it is important that we follow more the European model. There is a tremendous danger that our cultural and historical heritage can be devalued and destroyed if we only produce crafts for sale. This really must be part of a cultural revival, the re-establishment of our sovereignty and pride in our own histories. If we can do that, then I think we shall create a

richness in the world through the trade of these craft products which will be very beneficial. But with all due respect to McDonalds, if we all become like McDonalds in crafts, then I think we shall devalue our society. Trade is not just trade; sometimes it is about presenting our own culture and society.

Part two

THE FUTURE OF COMPETITION: A PERSPECTIVE ON ELECTRONIC COMMERCE

Panel discussion held jointly with the Second Committee of the General Assembly in New York through videoconferencing

1. Presentations by panellists

Mr. Geza Feketekuty, Director, Centre for Trade and Commercial Diplomacy, Monterey Institute of International Studies, San Diego, California

It is indeed a pleasure and honour for me to be here this afternoon participating in this panel. I very much want to congratulate the Secretary-General of UNCTAD for his brilliant insight in combining this topic with this morning's discussion on competition.

Recent developments in electronic commerce have the potential of empowering small entrepreneurs to reach global market niches at relatively modest cost. Many individuals and families have already successfully built businesses by offering home-produced jewellery products, handicrafts and computer programmes for sale on the Internet. Those with the skills and entrepreneurship now have a better chance than ever before of reaching potential customers worldwide on a limited budget. This new global electronic market place is likely to transform global competition to the benefit of both small producers and small consumers. It has already transformed the global market for books.

Electronic commerce has been around for more than a decade and has been the driving force in the globalization of production by large corporations. It made possible large investments by these corporations in assembly facilities and facilities to produce components and parts all around the world. The widely shared economic benefits helped persuade WTO member countries to adopt the telecommunications annex to the General Agreement on Trade in Services and subsequently the Agreement on Basic Telecommunications Services.

Now the question is - what is different about what we are discussing today? What is different is that, over the last two years, electronic commerce has taken on a new dimension through the commercialisation of the Internet. This development has pushed global electronic commerce from the level of large corporations to the level of small businesses and households, and that is a major change. While global volumes are still modest, it has already had a major impact in a number of areas. Consumers can use public electronic networks to collect information about products or services being offered for sale, to place an order and to arrange for the electronic transport of information-based products for services to the site of consumption, making them available virtually instantaneously. And they can do this on a global basis.

In the first case, the electronic network accessible to the public makes it much easier to acquire information about products and services for sale in other countries and on the prices at which they are being sold, and this is going to have a revolutionary impact on trade policy. As people generally find out the prices for which they can buy things in other countries, they will begin to ask why can't buy these goods for the same prices in their own country.

In the second case, these networks significantly reduce the time, effort and cost involved in making a purchase, particularly for national purchases.

In the third case, you can actually transport electronically the product you are buying, which allows virtually instantaneous consumption of the product or service produced, not only locally but around the world.

From the point of view of businesses, the new global network opens up the opportunity of exponentially increasing the number of potential costumers and reaching them at relatively very modest cost. It can also reduce the potential business risk by providing the means for immediate payment and, in the case of information-based products and services, immediate delivery to the consumer.

The potential impact of this new information and distribution channel is revolutionary, to say the least, and it raises a number of policy challenges for countries. Governments have been caught somewhat by surprise by the speed at which public use of the Internet has expanded in the developed countries. Governments in these countries began to develop a policy forum only in the last year, and there remains a distinct gap between market developments and the updating of laws and regulations.

Existing legal and regulatory structures are based on paper transactions and transactions taking place within clearly sovereign territories. More specifically, the increase in public use of electronic commerce raises legal issues such as the validity of electronic contracts and signatures, the locus of taxation, the distribution of liability, the nature of electronic cash and the legal reach of the parties outside the physical boundaries of the state. It also raises social issues such as protection of privacy, corruption, dissemination of offensive material, promotion of national culture and protection of consumers.

Many Governments have recognized the enormous stakes involved and have individually and collectively been taking steps to address both the legal and regulatory issues involved. The United States, the European Union and Japan have each issued

white papers within the past year. The OECD has examined a wide range of issues in articles and policy documents. Other international organizations such as the International Chamber of Commerce and UNCITRAL have begun to update the international commercial code, while still other organizations are struggling with issues like trade marks.

Within the time available, I can only hope to provide a brief sketch of the ideas, policies and initiatives that have come out of these initial policy efforts. All of the three major white papers that exist and the OECD policy recommendations start from the proposition that the growth of electronic commerce has been market-driven. They recommend that the primary role of government at this stage should be to create a more certain legal framework for electronic commerce. They also promote the principle of neutrality, which holds that the application of current tax laws and government regulations to electronic commerce should be neutral as compared to their application to paper-based transactions. In other words, they should not impose a discriminatory burden on electronic as against paper-based transactions.

All the papers recognized that the unique aspect of electronic transactions will require a new blend of self-regulation, national regulation and international cooperation. But the highly dynamic nature of the current stage of development requires a wait-and-see attitude on the part of government. The American paper is more categorical and explicit in looking to industry self-regulation as the solution in some areas, but all the papers emphasize the need for government restraint in the adoption of regulations, which could strangle the further market-driven development of this new form of commerce.

There is agreement that open access in the use of the telecommunications infrastructure and comparative pricing of telecommunications through increased competition are crucial to the

development of electronic commerce. At the same time, most countries see new challenges ahead in the regulatory separation of telecommunications, cable and broadcasting as these technologies converge in the global information super highway that is emerging.

All the papers recognize that development of electronic payment systems will require market-based innovation and a degree of government guidance and supervision to protect the integrity of the financial system and to maintain control over the creation of money and credit. The US paper proposes that the Internet be declared a tariff-free zone, and this is not as revolutionary a proposal as it sounds, since Governments as a practical matter have not found it feasible to place tariffs on across-border trade in services. Also, most countries place a tariff only on the physical storage medium, and not on the intellectual content of information or entertainment products. An agreement to avoid tariffs on Internet-based trade in information-based services and products would give a symbolic boost to such trade but will not substantially alter the status quo.

The OECD has also prepared a number of analytical papers on the issues arising from the use of electronic networks by households to purchase physical goods abroad. These networks facilitate the acquisition of information about goods abroad and the placement of orders. They do not change matters of shipment and customs clearance, which still make the completion of such transactions relatively expensive and cumbersome. The OECD has suggested that regulatory reforms in customs clearance and transportation could yield substantial benefits to consumers as they seek to make use of electronic networks to place orders abroad.

Beyond these issues, the rapid expansion of electronic commerce at the international level poses new challenges to national regulations in many areas. In the long run, one core outcome of the growth of electronic commerce will be the need for greater international cooperation on regulatory issues, because

cyberspace transcends the traditional territorial boundaries of nation States.

The discussion up to now has focused primarily on policy developments in developed countries, because that has been the major focus of activity to date. In developing countries, the major constraints on the growth of electronic commerce are limited public access to electronic networks and the excessive costs of telecommunications. In rural areas, the problem is more basic, namely the lack of adequate telecommunication facilities.

Organized international discussions of issues related to electronic commerce at the global level remain focused on relatively narrow technical issues. A wider discussion is likely to emerge in the WTO later this year as countries begin to address issues related to phase two of the information technology agreement. Wherever such discussions have been held, however, the participation of developing countries has been very limited. It is likely that few delegations from developing countries are fully equipped to participate in many of these discussions in a meaningful way. I therefore believe that UNCTAD has a very important role to play in this arena, and that is why Secretary-General Ricupero is to be congratulated for this initiative.

Mr. Carlos Ronderos, Minister for Foreign Trade of Colombia

First of all, I would like to thank the Secretary-General of UNCTAD for his invitation to discuss this subject. I would like to draw attention to the areas opened up by electronic commerce. Opportunities have opened up for trade in goods and services, the provision of digital data, on-line bank transfers and handling of documentation, but not just that. Electronic commerce opens up a vast world for implementing joint projects, the design of on-line services between countries, public contracting and marketing of products, as my predecessor has pointed out. All after-sale service

will be developed through electronic services. And this electronic trade can be developed directly or indirectly. Now, what do we mean by that?

First of all, in direct trade we have a situation where trade occurs totally in cyberspace, and where order payments and delivery are carried out through the electronic system; here I am talking about intangible goods and services. In the case of indirect trade, of course, the order, the payment, and the paper work, so to speak, are channelled through the electronic system, but the goods are processed and delivered through traditional channels. With this frame of reference, the question to ask is why is electronic trade important? Here, I would like to provide some figures I have gleaned from a few documents. Seventy-five per cent of trade or business contacts fail due to unsuccessful communication. Twenty-five per cent of the cost of a transaction is related to data capture and to paper work; 71% of the documents we have in computers and which we print through computers are digitalized manually - they are not transferred from computer to computer; and 18% of the orders in the United States have typing mistakes. This compels us to turn to electronic trade, which allows a reduction of about 60%, according to published calculations, in the time that elapses between the order and the delivery of goods. We have to bear in mind that the cost of electronic mail, or E-mail, is 25% of the cost of any other mail system in the world. And as a result, we are resorting to the exchange of electronic data more and more. In America, Europe, Asia, the Pacific and Africa, in the period 1995-1997, the number of messages relating to this type of trade, or data exchange, has grown significantly..

What are the systems that we are using today? Professor Feketekuty referred broadly to the Internet, which is the most widely used system. The Internet allows greater access for users, but it has problems of security and reliability, for both information and the handling of money. Hence the whole concept of electronic data interchange (EDI), which I will be referring to in more detail,

inspires greater confidence in that it is working towards more homogenous systems that will enable us to monitor and follow up, which is better than what is offered by the Internet for the purposes of international trade. Here, I am referring to EDI defined as the exchange of commercial documentation transmitted through electronic means. This is a definition which I think comes close to the subject, because we are getting into the question of documentation and trade, which involves countries, customs and banks - in other words we are talking not only about consumers but also about organizations.

What is the EDI environment? It is an environment which uses formatted documents based on an international standard and is useful for official entities, financial institutions, major private companies, trade forwarders, and people who are involved in international trade on a large scale.

As far as the evolution of EDI is concerned, in the course of this decade EDIFACT has been turning precisely into the basic standard for transmission in this type of trade. What are the costs and benefits of the use of these systems? Obviously there are costs - design costs in the development of the interface between existing systems and EDI, staff training and system installation, as well as the communications necessary to be able to turn the system into a widely used one. But this kind of instrument also has tremendous advantages in terms of innovative strategies and capabilities and staff efficiency, and of course it simplifies work in international trade. Why? Because it replaces paper documents, it increases response speed and it minimizes mistakes and delays. Here, we have three basic, central elements which help countries to engage in much more competitive trade.

In Colombia, we have a foreign-trade information system which is helping us to develop the basis for electronic trade. There is also the ASYCUDA system for customs. But what we want to do is to target institutions and to have them conceptualize the

processes for licensing and handling of exports and imports in a much more expeditious manner, record administrative acts, develop better archives and updated databases, facilitate the follow-up of international trade operations and provide users, i.e. private entrepreneurs engaging in international trade, with a better way to handle international trade, better access to databases and information to improve international trade. What are the advantages? Of course, there is increased speed. Information is much more reliable because it is checked more regularly and is more up-to-date. It enables enterprises to adjust to foreign trade and hence improve the whole process from management of inputs all the way to accounting and the handling of inventories. Costs are reduced, paper is eliminated and competitiveness is increased.

In the case of Colombia, what are the advantages for institutions and government? The advantages of course are immediate availability of information, which is of the greatest importance in relationships with other institutions and in our analysis and decision-making capacity. If international trade information reaches those of us who design international policy three months later, this is too late. This information gives us transparency because it does not depend on the discretion of an official. It helps us to control corruption and illegal practices. We are streamlining the whole process of foreign trade to obtain greater efficiency. This in turn helps us to engage in better international negotiations, to have greater facility in our international negotiations and to have greater availability of updated information in these processes of internationalization and globalization.

To conclude, I would like to refer to two aspects which are to us crucial in the future of electronic trade. First, the action or actions to be taken by Governments. Obviously, there is a need for the political will to introduce the country to the global economy of services, to create the necessary infrastructure so that prices are accessible to people, to prepare the population for the challenges of a borderless world economy, to identify comparative advantages, to

develop competitive strategies in the appropriate sectors, and of course to introduce the necessary legislation.

What still remains to be done? Challenges remain, challenges stemming from trade which is no longer subject to controls. As the previous speaker has pointed out, electronic trade is not subject to state control. Software which is produced in one country is developed in another and the payment is made in a tax haven in a third country. And the question of taxes becomes impossible to handle. Here, we are going to be confronted with the harsh reality of having to reconcile the nineteenth-century concept of the nation State limited by physical frontiers with cyberspace technology which transcends any possibility of legislative or repressive treatment by a Government.

The other major challenge relates, of course, to a world which is divided, not as in the 1950s between the haves and the have-nots, but between those who know and those who don't. Our great challenge is how to proceed to an equitable distribution of knowledge through the mechanisms that cyberspace and electronic trade make available to us. These are a few reflections I would like to leave with you.

Mr. Tariq Sayeed, Chairman, G.77 Chamber of Commerce and Industry of Developing Countries

The current era has witnessed fast and frequent changes at the international economic level. We have seen the successful conclusion of the Uruguay Round negotiations and the creation of the World Trade Organization. The interdependence of world economies has increased. On the development scene itself, some developing countries have made significant progress, but the majority of developing countries are still struggling to cope with the problems of hunger, poverty and underdevelopment. In the meantime, the process of globalization and liberalization of trade in

the wake of the revolution in telecommunications has been intensified.

The introduction of electronic commerce has, of course, unfolded immense opportunities and challenges in the promotion of trade, the inflow of capital and technology. The United States of America, the European Union and Japan have already made much headway. Over the Internet, we can already buy books and clothing, obtain business advice, purchase everything from garden tools to hot sauce and high-tech communications equipment. But we know this is just the beginning. Trade on the Internet is doubling or tripling every year. In just a few years, it will generate hundreds of billions of dollars in goods and services. According to some estimates, the trade volume today is 2 billion dollars and will reach about 1 trillion dollars by the year 2010.

The Internet is currently concentrated in developed countries - out of the 16.1 million Internet hosts, 16 million are in OECD countries - and is only beginning to permeate the developing nations. The Internet must spread within those countries in a manner that makes it accessible not just in the capital city, but also throughout the country, including rural areas. Wireless satellite technology must help.

We believe that use of the Internet is inevitable and inescapable in the current era, whether in developed or developing countries. However, if the Internet is only available in developed countries, then instead of being a vehicle for integrating the global economy, it could create further division and polarity. It could increase the disparity of incomes in the world. However, if electronic commerce and the Internet become available to developing countries, then they will be a force for narrowing the income gap in the world. The Internet can then become a very positive force for economic and social development in a global sense.

The Internet can make it easier for companies in developing countries to do business globally. It is now very difficult for a small company in a developing country to be a part of the global marketplace. But with the Internet, one can immediately have access to a billion people globally. Thus, if the Internet can reach the developing countries, it can be a greater force for economic and social development.

Electronic commerce gives rise to intense competition based on the survival of the fittest, the standardization of products on the part of companies and the integration of economies. The question is, when the least developed and developing countries have a very poor rate of literacy, not to speak of computer literacy, and their infrastructure base is so feeble due to resource constraints, and where their rural sector does not even have telephone links, how can this modern technology and this digital economy be introduced? About two-thirds of the world does not have access to telephones. The developing countries continue to confront critical macroeconomic imbalances, chronic debt burdens and galloping inflation. The spectre of hunger, disease and poverty continues to haunt these countries, which are exposed to the risk of being marginalized in respect of electronic commerce unless they are adequately assisted by the international agencies and the multinationals.

The second point that I would like to stress here is that the adoption of a digital economy raises a number of issues. First, declaring the Internet a free-trade zone - Is it possible for the Governments of developing countries to allow the duty-free movement of goods? Second, the protection of intellectual property - sellers must know that their intellectual property will not be stolen, and buyers must know that they are getting authentic products. Third, privacy is essential in the network environment. Fourth, security and protection of data like credit card numbers, etc., is also required. Fifth, there is a need to develop uniform rules and uniform rights. Sixth, there is the need to protect people

from objectionable material. There is a need to build a modern global telecommunication network that is accessible, affordable and supports electronic commerce. A sense of participation of all partners, whether belonging to the North or the South, is a prerequisite for the success of this digital economy; otherwise, electronic commerce threatens to become little more than high-tech isolationism.

I believe that UNCTAD could prepare a paper on electronic commerce and its pros and cons, especially for international trade and the inflow of investment and technology, for the benefit and guidance of the developing countries. Some mechanism for financial support for the least developed countries to enable them to switch successfully to this modern technology should be created. Their lagging behind in the adoption of a digital economy would indeed be disastrous.

The Group of 77 Chamber of Commerce and Industry can be counted upon for its full support and cooperation, and in fact it must be a partner in evolving a modern global telecommunications network. I hereby renew our pledge that the private sector and the Chamber will fully support and supplement the efforts being made at various levels to improve competitiveness, especially of small and medium-size enterprises (SMEs), in this increasingly globalized economy.

Under the aegis of the Group of 77, we have been trying to develop a Group of 77 Trade Information Network in which Pakistan is the regional focal point for Asia and the Pacific. The focal point is situated in Karachi and has started to disseminate business information among the members of the Chambers of Commerce and Industry of developing countries. The regional focal point for Africa is Cameroon; for South America it is Colombia.

Today, the Chamber network has been created through the cooperation of a number of institutions and strategic alliance partnerships with several industry leaders. Cooperation with UNCTAD's Trade Point Programme assures the place of chambers in promoting trade efficiency in general. The network has grown to include nearly 2,000 chambers of commerce, making this the de facto global centre of the chamber of commerce universe on the Internet. This network is now acting as a conduit for several informational and promotional products of SMEs.

The network provides a great opportunity for Group of 77 chambers, SMEs and their respective Governments to promote South-South trade and investment. The international development agencies are being requested to provide adequate assistance to the developing countries' chambers in order to help them gain access to the information and communication technology that is now necessary in order for them to become competitive in this increasingly globalized economy.

Given the importance of investment promotion for developing countries, particularly for Africa and the least developed countries, there is a need to provide assistance to enterprises, as well as investment promotion agencies, to project their investment opportunities and secure investment partners through electronic video means. Of course, while the Internet is the emerging priority, this does not mean that it should submerge the other major issues relating to the debt, market access and commodity problems of the developing countries.

Building Internet-related infrastructure in developing countries requires official assistance, as well as investments from the multinationals. The investment promotion programme of developing countries will also need to give priority to telecommunications. And developing countries will have to hold consultations among themselves on how best to tackle the challenges and the potentialities arising out of electronic commerce.

In that endeavour, the Group of 77 Chamber of Commerce would be willing to provide the developing countries with support.

Let me emphasize that electronic commerce is no longer a dream. It is a reality coming in the wake of the information revolution that the world has witnessed. The economies in the twenty-first century will be largely shaped by the Internet. What is required is to identify the impediments which could be experienced in the regions of the world whose technological base is thin. Through joint efforts, a strategy could be evolved to make this technology economically viable and allow it to spread throughout the world with as little hindrance as possible.

Moderator

My first question will be the following: all of you, more or less, referred to the necessity of using electronic commerce as a kind of tax-free zone. We are in a framework within which it is familiar to speak about the need to raise domestic resources, to increase the mobilization of domestic resources. Is this going to impinge on the possibilities of nations to raise resources for development, in particular also because, for quite a few developing countries, income taxation is a bit more difficult as compared to, for instance, trade taxes. Because the three of you referred to this issue, I would like you to go into it a bit more.

Mr. Carlos Ronderos

I definitely believe it is quite unlikely that countries will be able to tax producers of goods and services the way they are doing today once electronic trade takes off, because the concept of a nation will be a different one. Production is no longer a national issue. Products are being assembled with bits and pieces from all over the world. Now, they will be assembled with bits and pieces

from all over the world but in cyberspace, and then it will be much more difficult to see where we collect the taxes and how we distribute those taxes for development. That is one of the big challenges I would say we have ahead.

Mr. Geza Feketekuty

First, I would like to make a distinction between a tariff-free zone and a tax-free zone. I don't think anybody was saying it should be a tax-free zone. It may be difficult to collect taxes, but nobody has proposed a tax-free zone. What people have proposed is a tariff-free zone.

With respect to taxation, I have had some conversations with certain tax authorities, who were more or less concerned. What they said is that we remain committed to taxing producers - we have mechanisms for assessing taxes on producers resident in our State. And where you have an efficient tax administration system and you can efficiently audit the books of enterprises, I think there is a basis for taxation of producers. I asked American tax authorities about tax havens; they do not worry about that because they tax American citizens. If American citizens use tax havens, the authorities still tax them, unless they want to give up their citizenship. I think the problem is taxing consumers. Consumption taxes will be virtually impossible to collect, because how can the Government supervise what you consume from the electronic network? There will be no way of doing it. The Government will have to have massive auditing efforts. So my sense is that consumption taxes will be a real problem, but that producer taxes can be collected where the Government has an efficient system and where there is transparency in record keeping. With regard to tax havens, some tell me it is not as big a problem as people think. I don't know.

Mr. Carlos Ronderos

I very much agree with Mr. Feketekuty. But VAT, sales taxes, consumption taxes are becoming the main source of revenue for countries, so there is not much point in being able to tax production if production is not the main source of income for countries. At least in my country, VAT is becoming the main source of revenue.

Moderator

My second question refers to what was said by Mr. Tariq Sayeed on the risk that there still will be an increasing gap between those who have access to knowledge and the others. Could you and your colleagues try to say something about specific policy measures which ought to be taken in order to avoid such a gap?

Mr. Tariq Sayeed

When we are talking about global electronic commerce in the context of developing countries, we have to see the situation within these countries. For example in the country I come from, we have 34 cities and 34 chambers. The economic developments that are taking place in these cities are not known quickly in the other cities. At the moment, there is no system of collection and dissemination of information within the cities in developing countries. As a chamber which is working in all the developing countries, we are trying to fill this gap, initially on our own, by creating this information network within the countries and creating a focal point in each country.

Obviously, a telephone call from one city to another in Pakistan is more expensive today than one which I have to make to the United States or to Dubai. These are the constraints which have to be looked into, and for this, there has to be a joint effort by

Governments, international institutions, donors, the World Bank, and lending institutions. There are many players in the field who are moving towards the concept of a global village internationally. This is not very easy, and many developing countries are already being marginalized, for example, due to the agreement they have made with WTO. Electronic commerce is one step ahead of the global village, and due care has to be taken. Each one of us who is involved in promoting this venture or this new philosophy must take into account the shortcomings and the limitations that the developing countries are facing. I could go into more depth on this issue and on the backlashes that are occurring; for example, what has happened in Indonesia, Malaysia, and Thailand in the last 45 days. They were the new Asian tigers. We used to take the Asian tigers as an example because of the progress and the growth rates they were showing. All of a sudden, what has happened? In the pursuit of advancing towards globalization and opening their economies, they went so far that they fell victim to their own success.

2. Follow-up discussions

Message from H.E. Mr. Kadré Désiré Ouedraogo, Prime Minister of Burkina Faso

"As you know, it was my firm intention to be with you in Geneva today in response to the kind invitation of Mr. Rubens Ricupero to participate in this important meeting. Unfortunately, my obligations have kept me in my capital. I nevertheless wish to send a brief message to emphasize the importance which the topic you are discussing has for a country like mine.

Burkina is one of the poorest countries in the poorest continent. However, we unceasingly pursue our efforts to enable us to integrate better into the global economy and to participate

fully in today's global competition in order to attract trade and investment. We continue to look towards the future with realism, i.e. without excessive ambition or concern. The globalization and liberalization of trade are for us realities which we must face from now on. For the least developed countries of Africa, globalization is a source of great hope and also of many fears and concerns, but what we fear most about globalization is that it might stop on our doorstep.

We believe that the international community must give the least developed countries the assistance and support necessary to help them cross the threshold of integration and prevent the new mechanisms of international competition from marginalizing them even more than in the past. But we also consider that it is for us ourselves to make every effort within our power to participate fully in the development of global markets. For that, we need bodies such as UNCTAD. We need bodies capable of foreseeing future difficulties and new areas of competition.

For some time, the major developed economies have begun to lay down the boundaries for electronic trade. It is therefore particularly encouraging, in particular for countries which, like mine, are the least well equipped to take part in the ongoing discussions, that a body such as UNCTAD is already tackling the foreseeable consequences of this new type of trade competition.

For the least developed countries, this will be a crucial element in enabling us to participate actively and positively in the progressive liberalization of world trade and to obtain support in alleviating the poverty of our populations and providing them with decent standards of education, health and well-being.

For the least developed countries, for the African countries, for the land-locked countries, the possibility of trading more cheaply, more easily and more transparently is crucial. In this sense, the prospects opened up by electronic commerce represent

for us an avenue full of promise. Nevertheless, this promise will only become an economic reality if problems of access are resolved: access to infrastructure, access to financing, and access to training.

When, a few years ago, I had the privilege of presiding over the session on financial services at the Columbus summit, I felt that a new UNCTAD was being born, an UNCTAD both close to the needs of its members, and particularly its poorest members, and looking towards the future. The themes that you have chosen for the High-level Segment today confirm this. Please be assured that we will examine the results of your work with the greatest interest, and I wish you every success."

Mr. Rubens Ricupero

I wish to convey a warm welcome from UNCTAD to our colleagues and friends assembled in the Second Committee of the United Nations General Assembly. It is indeed for us a moment of particular satisfaction to have this first interactive meeting with the United Nations General Assembly, of which UNCTAD is a subsidiary body. It is the first time that we are able to bridge the considerable gap of distance and to communicate in real time with New York. It is indeed remarkable that on the day that we are concentrating on how the new information technologies are able to reshape the whole field of competition and competitiveness, we can also have the first experience of showing how those modern technologies can be put at the service of international cooperation.

You have probably heard some of the comments that were made by our panellists. I think that two points deserve particular attention in the discussions we are going to have.

The first one is that I have not heard much mention of the fact that not only can electronic commerce serve as a way of helping

developing countries to become more competitive, it can also serve as a powerful instrument for trade among developing countries. We all know that one of the major obstacles among developing countries for trade has been the fact that, because our patterns of transportation and communication were shaped during centuries of colonial rule, we never had direct links among developing countries. Of course, electronic commerce cannot solve all the problems. It will not be able to make up for the lack of maritime transportation, but it can provide a way of allowing developing countries to communicate and to enter into trade operations. And when the nature of the goods or services is information - software programmes, construction projects, publicity campaigns, art in general, music - you can deliver through the Internet. So it may be a very powerful instrument for cooperation among developing countries.

A second point I would like to highlight is that, as we are all aware, there is a problem of connectivity that is particularly acute for the least developed countries, which have very little access to modern technology.

I would like to end my introductory words by saying that priority action in this field could be taken in three areas. Firstly, measures should be adopted to enhance access to electronic commerce and its technologies and know-how in the less advanced regions, including Africa and the least developed countries. I would suggest that, in attaining that goal, the very good cooperation that UNCTAD and the United Nations have here in Geneva with the International Telecommunication Union will be a very important instrument.

Secondly, an assessment should be made of the possible impact on developing economies of the proposals regarding a possible global framework for electronic commerce, including proposals for tariff-free transactions through Internet, etc.

Thirdly, public and private support should be mobilized to generate partnerships to promote electronic commerce in developing countries, especially LDCs and Africa as a whole, in the context of the Partners for Development summit that we are going to have in Lyon in November 1998.

Ambassador Oscar de Rojas, Permanent Representative of Venezuela to the United Nations in New York, Chairman of the Second Committee of the fifty-second session of the General Assembly

It is a great and special pleasure for me to salute our colleagues meeting in Geneva on the occasion of the High-level Segment of UNCTAD's Trade and Development Board. On behalf of my colleagues in the Second Committee of the General Assembly, I should like to express our great satisfaction at observing how technological progress is becoming available to us to carry out this first and, I would say, historic videoconference between New York and the Trade and Development Board in Geneva.

You are addressing a subject that has acquired crucial importance in the development of international trade relations, namely electronic trade. Indeed, the emergence of global information networks such as the Internet, is having an important impact on regular trade, commercial and financial ties and competitiveness between nations and enterprises. Hence, it is necessary for the Member States of the United Nations and institutions such as UNCTAD to continue analysing these issues, taking into account proposals which have been circulated in various fields in this regard. As we see it, this is a very appropriate way of involving the international community in the formulation of a positive agenda for trade and development. Beyond the specific agenda that we are considering today, I think that the significance of this act, where for the first time delegations working in the

economic area in New York and in Geneva are interacting face to face, is of the greatest importance. I recall that one of the things that had the greatest impact on me personally when I moved from my post in New York to Geneva, and years later when I went back to New York, was to see how much we lack mutual information about our respective jobs. This has to be corrected. Ultimately, we are the same countries working for the same goals, and I think that it is precisely through occasions such as this that we can contribute much to achieving this purpose.

Mr. Nitin Desai, Under-Secretary-General for Economic and Social Affairs

May I join with Ambassador Rojas in greatly welcoming this particular event for a variety of reasons. First, it demonstrates the capacity of the United Nations to contribute to global discussions on issues which are at the cutting edge of development policy. Secondly, it is dealing with an issue which is really at the very heart of relations between nations. Historically, relations between nations have been shaped as much by developments in the technology of transport and communications as by other factors, and in the world that we live in, with the great possibilities of electronic communications, it is clear that the further development of the Internet is going to shape interactions between nations as profoundly as past changes in air and sea travel have done.

The third reason I greatly welcome this event is that it demonstrates the potential we have through technology for a much greater sense of collaboration and cooperation within the United Nations system. This particular event, where the Trade and Development Board and the Second Committee are going to share in a dialogue on themes of interest to both bodies, is something that could be an excellent example of the way in which collaborative and cooperative efforts can add to the capacities of all organizations in the system.

Mr. Alec Erwin

What has emerged from the three panellists is a theme that is close to important points that were made earlier today when we looked at the effects of globalization and competition, where it became clear that this process is having a profound effect on all economies in our world. And it is clear from the presentations by the panellists that the electronic interchange of information and electronic commerce may well have an equally profound effect on the structures of our economies and eventually on the structures of our societies. I think we are already seeing the demands that this places on Governments to provide information more efficiently, to utilize electronic information systems, and to get more effective information and policy information. Other intriguing questions that emerged related to the effect of electronic commerce on economies, which may be more complex than we think, the question of how taxes will be collected, tariff-free electronic trade, etc. Minister Ronderos made an important point that many countries have moved towards taxation in the form of VAT and other systems as a main means of collecting taxes. What effect would electronic commerce have on that? Undoubtedly we are going to have further structural changes induced in our economies by electronic commerce, which is developing very rapidly indeed, as was pointed out.

An important point of course is that, except in the case of services, where the product can be consumed immediately, when we are dealing with tangible products that still have to be physically traded after the related transaction has been carried out in the realm of cyberspace, this form of trade will generate pressure to increase the efficiency of our transportation systems. What we undoubtedly have to move towards is a situation where transportation is "seamless": once the information exchanges have taken place, we need the product to be able to move by road, air or sea almost as quickly as the information travels, if we are going to get the full benefits of this trade. But, as has been highlighted, probably one of the most interesting challenges we face is to see

whether this accessibility to knowledge and information will in fact be fully utilized in the manner that was envisaged, with trade becoming possible between every economic actor who can get access to electronic information exchanges. That is clearly a very exciting prospect, and I am sure many developing countries are exploring this. Certainly, in my own country, South Africa, we see this as one of the major means whereby we can help small and medium-size enterprises, agro-industry and agriculture itself by opening up the information highways to allow for the exchange of information and the operation of a marketplace along the information highways. As I have already said, this will only be possible if we can bring about commensurate efficiencies in our transportation and infrastructure networks.

A last point which has been touched on was the regulation of the exchange of electronic data. I think this might be a more important question for the developing countries than it appears because it would seem, in my view anyway, that the regulation of electronic data exchange will have a lot to do with how people can actually achieve the connectivity that the Secretary-General mentioned, though in the end it might be relatively easy for countries to hook up to these information systems. A more interesting and maybe a more vexing question for the developing countries could be the degree of influence they are going to have over the investment decisions that are taken in connection with the information highway. And here, the state in developing countries really has to be very farsighted on this issue right now, because obviously the investment decisions taken by the private sector as a rule gravitate towards the more profitable value-added services that would certainly underpin much of the commercial world. But for many developing countries, they may not be able to get investments in areas where data systems and the exchange of information could be used for social purposes. This, I think, is going to be an important challenge for the Governments of developing countries, and it reinforces the point that came up earlier today that it is for developing countries forming regional cooperation zones to include

cooperation in respect of telecommunications systems in order to ensure that the full spectrum of potentialities that electronic-data information systems can provide are actually realized for developing countries.

As was also said this morning, probably the greatest danger of marginalization that faces the LDCs and maybe some developing countries would lie in an inability to utilize modern production systems, and probably the central feature of modern production systems is precisely this information exchange. I think the discussion we are having here is extremely timely. We do not have the luxury of time to discuss coherent regulatory frameworks and to ensure a genuine harnessing of the potentiality of this whole global exchange of information.

Mr. Kassahun Ayele, Minister of Trade and Industry of Ethiopia

It is quite refreshing to hear the various points of view expressed by the distinguished panellists about the issue of electronic commerce. Indeed, a few months ago, this issue did sound very much like science fiction to many African countries, especially to LDCs. I wish to express my gratitude and congratulations to UNCTAD for identifying such an action-oriented topic for this High-level Meeting of the Trade and Development Board. It shows that UNCTAD has not lost its ability to chart the future of trade and development, to provide intellectual leadership in these areas, and to offer practical means to enhance developing countries' participation in international trade.

I am not quite sure if I will get direct answers to my questions in the light of the fact that some of the panellists have already raised the issues that I want to ask about, though they have not presented solutions, but have only stated the problems. We have heard many interesting views about the extent, nature and possible

consequences of globalization for the economies of poorer countries. I would be very much interested to hear the views of the panellists about how emerging global information networks are going to contribute to raising the standards of living of the populations of countries like mine, where people live mostly in rural areas Can electronic commerce move beyond large urban areas? Can it really be a tool for small enterprises?

Mr. P.P. Prabhu, Commerce Secretary, India

I would like to pose just one simple question. The Secretary-General said that electronic commerce is a very powerful technological tool of trade which holds the possibility for developing countries of being able to leapfrog whole stages development and reap the benefits. We also believe in India that this particular tool offers enormous promise. But it requires a great deal of improvement in infrastructure, human resources, etc. What do the panellists see as the practical ways of ensuring that this opportunity is not missed, and what should the role of UNCTAD be in this? A corollary question relates to the legal framework which Mr. Feketekuty referred to and also information about telecommunication rates and various other connected issues. In these matters also UNCTAD can probably play a useful role in terms of dissemination of information and in helping the developing countries to derive the maximum benefit from electronic commerce. I would like the distinguished panellists to explain how UNCTAD could help the developing countries in this regard.

Mr. Geza Feketekuty

I would start with the proposition that electronic commerce is ideally suited to help bring rural areas into the world economy, but of course this does presuppose investment in human resource development and in infrastructure. Let me cite an example. A few

years ago I worked with the Government of Barbados. Barbados has invested in basic infrastructure and in basic human resource development, and throughout the island people are working in electronic-commerce-related activities, information processing of various kinds, accounting, operations for insurance companies all over North America, and so forth. So, it can be done, but we come back to the role of government and what it can do to bring the population up to the basic level of computer and general literacy and to create infrastructure. I think we do need to realize that infrastructure is no longer quite as costly as we used to think, because you can now have very small satellite dishes and you can connect to the global communication system. The required level of infrastructure investment has been significantly reduced by modern technology.

The distinguished Minister from South Africa talked about the need for increased efficiency in government. The issue of accounting rates is all a question of regulation and creating a framework for competition and telecommunications to bring these accounting rates down. As you know, accounting rates are negotiated bilaterally between the telecommunications company in one country and the telecommunications company in another. The reason accounting rates are high for some countries is that they continue to have a monopoly that charges very high rates. What is needed is to open up the process to greater competition. This is exactly what has happened in the developed countries. So, it becomes an issue of creating a regulatory regime that facilitates entry into this new kind of world.

I think UNCTAD has a very important role to play. As I mentioned earlier, much of the activity in terms of international discussions in this area is going on among developed countries. Frequently developing countries are not represented, not because they are not invited, but because they don't have enough people to attend these kinds of meetings. I think that UNCTAD has an extremely important role to play in monitoring what is going on

internationally, disseminating that information, helping educate delegates from developing countries on what is important and where their interests are really at stake, and helping them to participate in meetings that really count, whether it is UNCITRAL, where they discuss commercial law, or ITU or the International Chamber of Commerce. In each one of these organizations, developing countries should be playing a more active role, and UNCTAD can help them to do that.

Mr. Carlos Ronderos

I think that the comment on the leap which is required to give this technology to developing countries is a particularly interesting point. First of all, the fact that one does not have such technology should not mean that it is impossible to have it in the future. Latin American countries are able to integrate very quickly into the digital system since they did not have any analogue system that they had to get rid of in advance. As a result, they could adapt much more quickly and easily than other developed countries which already had other technologies in place. It goes without saying that the satellite system that will enter into operation at the end of this year will make it possible to provide very local technology to all parts of the world, so I am absolutely convinced that this will be an essential tool for developing countries.

How can they become more competitive in terms of communications? I think this is one of the avenues that we will have to work on so as to put an end to the state monopoly in terms of telecommunications. The state monopoly on telecommunications makes telecommunications more expensive and makes competition between carriers a problem. It is important to reduce the cost of telecommunications by using more economical systems and by calling in different companies, allowing for the free play of competition and permitting communications throughout the world for just a few dollars. This makes it possible to make technology available to everyone.

The big problem is - how can the population be educated and trained in the use of this technology? How can we get people to overcome their fear of technology? How can we make the best use of the system? I think this is the real challenge before us. It is in this respect that UNCTAD has an essential role to play, which boils down to transmitting knowledge and breaking down the walls of fear so that people will use technology.

Mr. Tariq Sayeed

I think the questions are very relevant and I believe that, when talking about standards of living, an extension of these facilities we are talking about to the rural areas is very important. In this connection, literacy is very important in developing countries, since it is difficult to talk about electronic commerce when people cannot read and write. Attention has to be paid means of raising the level of education in least developed countries and some developing countries.

Secondly, I feel that the World Bank can play a major role because it is already financing projects. But if we look at what it is doing, it is also concentrating mainly on the cities of developing countries. It has to change its focus. No attention is paid to the rural areas in the developing countries.

With regard to UNCTAD's contribution, do we have an organization in the world which can interpret the regulations of the WTO? The only one is UNCTAD, which has an important role to play in this respect.

I also believe that if other related issues are not taken up, these new technologies will not be of any use to the least developed countries. There is free movement of all economic factors, except one factor which is the strongest point of the developing countries, and that is labour. There is more scope at the moment through the

WTO arrangements for the movement of skilled labour, and this must be encouraged, because skilled labour should have equal opportunities for moving around, just as capital and investment have. These are the kinds of areas which need to be addressed. What is important is not growth of GNP but whether prosperity reaches the man on the street. People want buses, more health facilities, more education. So any economic development which is directed towards the prosperity of a selected class of people will not resolve the issue of human development as a whole. These are the kinds of areas on which we should concentrate.

Representative of the United Republic of Tanzania, New York

On behalf of the Group of 77 and China, I would like to express our appreciation for this very important interaction between New York and Geneva on the important subject of electronic commerce. Before asking my questions, I would like to endorse the statements made by the Secretary-General of UNCTAD and Ambassador de Rojas on the critical role of electronic commerce in terms of the development process.

My question is brief and is divided into two parts. Firstly, I would like to follow-up on the issue of the role of UNCTAD in the development of electronic commerce in the developing countries, especially the least developed countries. I would like to have more details from both the Secretary-General of UNCTAD and the panellists on precisely what priority areas should be addressed in this very important field, taking into account what Mr. Erwin said about regional cooperation. So, I want to know precisely what priority areas UNCTAD and the UN system should address in order for marginalization to be reduced.

Secondly, I would like to take up the question of the legal framework for electronic commerce. I think we need some elaboration here - what precise additional complementary elements

are being discussed in the context of electronic trade as far as the legal framework is concerned.

Representative of Luxembourg, New York

When we read the European press, we often hear that European companies have already subcontracted some of their activities, mostly to countries in Asia, through electronic links, which shows that some parts of the developing world have already managed to establish a place for themselves in electronic commerce. And one aspect which often comes up in our debates here in New York concerns the potentialities of South-South cooperation, in addition to North-South cooperation. What potentialities exist in electronic commerce for South-South cooperation?

Mr. Rubens Ricupero

I welcome this question on UNCTAD because I think many people are not aware of the pioneering role that UNCTAD has been playing in this area since 1994. There are two major fields where I believe that UNCTAD can make a contribution. One is the more practical field of using information technology to conduct transactions, and the second is the matter of international negotiations on this important question.

With regard to the practical side, UNCTAD has pioneered the concept of trade efficiency based on information technology. As some of you are aware, in 1994 UNCTAD organized an important symposium in Columbus, Ohio. This symposium was devoted to the launching of the trade efficiency programme which was based, among other things, on the concept of the so-called trade point. What is a trade point? A trade point is a locus, a place, where, under the same roof, thanks to information technology,

telecommunications and computers, you can theoretically conduct all the elements of a business transaction, i.e. obtain information, establish the first contact between sellers and buyers, negotiate, conclude the actual contract with an electronic signature, even make delivery when the product is intangible in nature, and pay. And all that can be done in a single place, where you have access to trade information, information about documents required to export or import, and information on customs clearance, as well as access to export credit and insurance. All this range of tasks can be done through the trade point, and we now have trade points established in over 100 countries in the world. I am proud to say that my country of origin, Brazil, is one with the largest number of trade points - I think now we have eight or ten trade points already in operation. And UNCTAD has been receiving financial cooperation from the European Union, for instance, to provide for the establishment of trade points in more than 20 countries in Africa. And we have just opened one in Romania. So this is a reality.

The second aspect, which is the negotiation aspect, is still very much more of a potentiality than a reality. But I am among those who believe that negotiations on this matter will take place very soon. I can deduce this from several signs. One is that President Clinton, in a speech made on 1 July, already mentioned this matter, and he later went on record saying that he hopes to have a multilateral agreement in the next 12 months. When visiting South America, he again raised the issue with the South American countries he visited. The European Union, meeting in Bonn, also produced a very substantial and detailed declaration in which once again the matter of multilateral discipline is covered. So I imagine this is a matter that will probably come up, perhaps at the next ministerial meeting of the WTO, and it is necessary to make people aware. I see this as a role for UNCTAD, and a few weeks ago, in September, we had a meeting of an Expert Group in Geneva, back to back with the International Telecommunication Union, in which we addressed some very specific matters that we are exploring and about which we are giving information to developing countries.

Moderator

The second question relates to electronic commerce in the framework of negotiations on services in WTO.

Mr. Geza Feketekuty

First, let me just say that so far there have been no discussions in WTO on issues related to the legal framework for electronic commerce. Discussions in this area are, however, taking place in New York in the United Nations Commission on International Trade Law, where delegations are discussing a model commercial law. When you turn, however, to the World Trade Organization, two agreements were negotiated in WTO which are of relevance to a legal framework for electronic commerce. The first and probably most important agreement was the telecommunications annex to the General Agreement on Trade in Services. The telecommunications annex established the basis for access to value-added telecommunication services, and in effect that regime will be, I think, the legal foundation for whatever may be developed subsequently to assure access and connectivity, as discussed by Minister Erwin.

The second agreement in WTO was the agreement on basic telecommunication services, which provided a regime for competition in basic telecommunication services, again a very key element in the legal structure for a future system of electronic commerce.

As Mr. Ricupero mentioned, President Clinton has called for a tariff-free zone for information-based transactions within the Internet, and he has asked that this be done in the next 12 months. It is his intention to have the United States raise this as an issue in the context of ITA II, i.e. phase two of the Information Technology Agreement, the negotiations on which are beginning this fall.

We cannot predict what the reaction of other countries will be, but it is quite clear that in negotiations on trade in services beginning in the year 2000, electronic commerce will have to be a central issue.

Moderator

The third question is on South-South trade. Is there any advantage for South-South trade in electronic commerce?

Mr. Tariq Sayeed

Certainly there is a great potential for developing South-South trade through electronic commerce, and that is precisely the reason why we are creating an information network between the developing countries. At the same time, we thought of establishing a consortium with the developed world and through the International Chamber of Commerce. I strongly feel that electronic commerce is going to increase immensely trade relations not only among countries in the South but also between the North and the South.

Mr. Auguste Paraina, Minister of Trade of Madagascar

The Panellists referred earlier to the risk of marginalizing the LDCs. It seems to me that countries or firms that are not English-speaking also run the risk of marginalization. We must not forget that, with respect to this virtual market, we are not only dealing with major firms; we also have to ensure that this market is of benefit to small and medium-size and indeed micro firms. So, my concern, my apprehension has to do with the competitiveness and the power to participate of small and medium-sized firms in countries that are not English-speaking.

Ambassador Nicolas Imboden, Federal Office for Foreign Economic Affairs, Switzerland

Allow me first to make sure that we are all talking about the same thing. I am going to address the issue of electronic commerce in goods and services and not information itself, which is another issue in my opinion.

We have heard today quite powerful information about new technologies of trading. My question actually is - what is really new and why would we need new rules? It seems to me that we have a multilateral trading system which is supposed to assure free movement of goods and services. Electronic data represent a powerful market instrument, but they do not change the manner in which we trade. They make it more efficient, they make markets more perfect. As a matter of fact, they ensure transparency, competition and market size, but that is nothing fundamentally different. This morning we spoke a lot about globalization, and it seems to me we have talked about it as if globalization was here. I believe we have only seen the tip of globalization, and the real global economy will only be available once electronic commerce is a reality for the majority of the countries.

Electronic commerce changes the competitiveness of people, of industries and of nations. But, there is nothing new in it either. Each time we have new technology, competitiveness changes. I would be interested if anybody can identify why electronic commerce should discriminate against any type of economy, be it developed or less developed. As a matter of fact, I think that electronic commerce is helping developing countries to overcome some of the major bottlenecks they suffer, such as size of market, access to information, transparency and proximity to consumers.

Of course, just because electronic commerce does not discriminate in theory does not mean that it does not discriminate by the simple fact that you do not have access. This is an issue for

developing countries, but it cannot be solved through regulations. It will have to be solved through investments and technical assistance. So what is the role of Governments and of the multilateral community in the regulation of information and technology? It appears to me that we have only three goals in that field. One is we have to ensure free competition, and when I say free competition, I mean free not only in terms of Governments but also in terms of monopolies within the private sector. We cannot be dominated in the field in question by one company, such as Microsoft. Second, we have to assure, I think, a level playing field for all nations and for all industries. And third, we have to ensure that everybody has access and is able to actually take advantage of the new opportunities created. Certainly, we do need standards in this field, but I believe that the private sector and the market will figure out those standards much more efficiently than we as Governments could do.

Moderator

Do we leave it to the market, except perhaps for the enactment of some competition policies - is there no other role for Governments in setting rules?

Mr. Geza Feketekuty

In a way, the answer is yes, we should not create new rules for electronic transactions per se. In fact, one of the principles I mentioned that is common to all of the policy papers that have been developed is the concept of neutrality. Government policy should be neutral as between paper transactions versus electronic transactions.

The question is, however, why do we need to have discussions about regulations in this area? The first is that the shift from paper

to electronics requires changes in all commercial laws, because they are all based on the assumption that you have written pieces of paper. As you move from written pieces of paper to electronic records, you have to have an understanding of what constitutes a legal document. How are these legal documents going to be protected? What constitutes a legal signature? What constitutes legal verification by a third party to the transaction? This is a whole new set of issues that have to be tackled because it is a new medium. The legal framework also raises questions because in cyberspace you can no longer necessarily clearly identify the territory within which a transaction takes place. Some Governments have tried to assert authority just because the server was located in their territory, even though neither the producer nor the consumer was located in that territory. This is a legal issue that only Governments can resolve. Where is the legal liability for taxation, and so forth? So, the question of the legal framework is a question that has to be addressed, because cyberspace is a new place that is not currently envisaged in current structures of law.

The third set of issues really relates to the fact that some forms of government regulation become difficult to enforce in cyberspace. For example, for questions like disinformation, pornography, etc., who has responsibility? The country of the consumer cannot control what is supplied in another country in those areas. In the case of protection of consumers - who is going to protect consumers when the producers are located in other territories? So there is a need here for cooperation among Governments to ensure that the usual social functions of government are carried out in a reasonable way. Now, there is going to be a need in this area for a great deal of self-regulation by industry, because negotiating agreements at an international governmental level is not going to be easy. It is probably going to be easier if the private sectors in different countries get together and develop some norms that meet the objectives of civil society for social, responsible conduct. If that does not take place, then Governments will have to step in and will have to work out some rules. But this is not to say that

what is needed is a new form of regulation of electronic commerce per se. That certainly is not the case.

Mr. Rubens Ricupero

Summing up what has been said, traditional trade has always relied on what are called border measures, that is tariffs and non-tariff measures that are applied at the border. This is true about intellectual property. But here you have a situation where, instead of having physical material crossing borders, you have flows of information going from computer to computer. This is why new rules will probably be necessary.

Moderator

The second question was posed by the Minister of Madagascar. The only person who can answer that is the Minister from another non-English-speaking country, Minister Ronderos. Are your Spanish-speaking countries disadvantaged in this area due to the fact that there is one overall uniform language - the English language?

Mr. Carlos Ronderos

That is a very difficult question to answer. The most widely spoken language in the world is broken English. I think that bilingual teaching in countries has become a fundamental issue, and this is one field in which countries have to make great efforts to provide further education for people to access cyberspace. At least, in the case of Latin America, due to the influence of television and of being near the United States, English has become more widely spoken and is the second language taught at schools. But I think there is no doubt that there will be an international language and that would be English.

Ambassador Oscar de Rojas

We have been absorbed by this most interesting and compelling discussion. As you know for many of us here in New York, we are not really specialists in any of these fields. We suddenly wish that we knew more about these things so that we could perhaps participate in a much more positive way in your discussion, but we are very happy to see that we have UNCTAD and that this kind of discussion is taking place in UNCTAD, which is of course part of us, part of our family.

Representative of Poland, New York

I would like to say that I feel privileged to be able to take part in this conference. We have already heard questions expressing numerous worries concerning electronic commerce. This is another question of this kind. I am concerned to know whether enough is being done by United Nations bodies to include less developed economies in Central and Eastern Europe in electronic commerce. I am afraid we are not yet ready to take advantage of it fully. What are the steps taken or programmes introduced to prevent the already existing gap between various economies from widening. I think it is extremely urgent that, in particular, the question of training an adequate number of specialists in those countries should be addressed.

Moderator

The question which was asked by the representative of Poland refers not only to the countries in transition, which she says are having less opportunity to participate in the technology which we are discussing, but is also related to the more general question - how indeed could we at an international level help foster training in all countries which are behind, in order to allow them to take advantage of this technology that is so important for trade?

Mr. Alec Erwin

I think this might turn out to be one of the most interesting of all developments, because certainly, speaking for South Africa, in some recent meetings on training, what has emerged is that training large numbers quite quickly in the ability to use computers is relatively easy. What we are still gauging is how quickly one could then go a step further, because South Africa finds itself in a somewhat unusual position, in that we have quite a highly developed information technology industry but because of our particular position with racial discrimination, we found that the bulk of the more high-level skills in computer sciences and technology lay within one population group. Our Ministry of Telecommunications and Communications has now embarked upon a major training exercise to move people very rapidly into new technology areas and levels, and I think the signs are very promising that this can be done very quickly. We have regulatory agencies that have been introduced recently in South Africa, and these agencies are manned by highly skilled persons. We feel optimistic that training in information technology up to highly skilled levels will be easier than we think. We have been working very closely with India, in fact, and I think India in itself is an interesting case study on how rapidly you can develop an effective and large information technology industry.

Mr. Geza Feketekuty

The first point refers to what Minister Erwin said. I think one of the really important things that can be done is to establish a clear legal framework, because small enterprises, in particular in developing countries, are going to be hesitant to enter the system of electronic commerce until they know that there is a certain legal framework. So I think that the work of UNCITRAL is going to be absolutely critical in establishing a clear new legal framework.

The second point that I would like to mention has been mentioned before but cannot be understated. It is that obviously the cost of participation is key, which means telephone rates have to come down, and that really brings us back to regulatory forms in the telecommunications sector. This is something countries need to do on their own. It is not something that the international community can do.

The third point is that, as Minister Erwin said, the technology involved lends itself to being used effectively for training. In fact, Secretary-General Ricupero and I participated in a programme early in the summer where we broadcast to 300 sites all over Latin America. This is the result of new technology. But of course it presupposes that you have at least the minimum computer literacy so that people can access these systems. So it does ultimately bring you back to the need for human resource development.

Mr. Carlos Ronderos

Governments have to make a great effort. You can have very fast electronic trade, but it is no use if you have to wait for days to get through customs, to get health permits or to get import permits. If the state does not involve itself in electronic trade, the private sector will be stopped by those barriers which paper- working Governments impose.

Representative of Peru, Geneva

I would like to know whether in the future it will be necessary to have multilateral disciplines in electronic trade and, if so, what the role of UNCTAD will be given the great disparity in economic development which exists between the developed and developing countries.

Ambassador Anthony Hill

One of the most important points made, both as a desirable goal and one which will determine the nature of the global economy, is that we must focus on recovering sovereignty in these qualitatively changed circumstances. I caution that this is perhaps a misreading of reality.

The first issue to answer is - what are these qualitatively changed circumstances? They are legally binding rules and disciplines in multilateral or international organizations. These rules and disciplines cut across national borders and reach into the very heart of national economic policy-making and the national economic space. While you can reverse political domination, it is less easy to reverse economic penetration.

Developing countries that are parties to any new rules and disciplines are binding themselves willingly with their eyes wide open. Where these issues are not understood, where market power is unequal, where decision-making is undemocratic, this leads to the reverse of recovering sovereignty - it leads to a loss of sovereignty. Of course, there could be a sharing of sovereignty, which is what a true democratic multilateral negotiation should be about.

Mr. Feketekuty, the other panellists and the Secretary-General all spoke about a number of developments. I served as Chairman of a Group of Experts at the intergovernmental level on a similar subject, and based on this my conclusion is the following: in Singapore, we had an undemocratic plurilateral agreement on information technology (ITA), an agreement which had adverse impacts on a number of developing countries. Mr. Feketekuty spoke about a possible ITA II, and if it is not multilateralized, then I fear we might find ourselves bound by rules which are not necessarily fully understood. He omitted to mention the understanding on new satellite technology which is being developed in the ITU. He also omitted to speak about the importance of why

multilateral rules may be necessary to protect intellectual property holders as much as to protect consumers. And he omitted to mention the unilateral evolution of settlement and accounting rates, which is important in developing countries in terms of expanding universal service. So, my central point is very simple - UNCTAD does have a role, but it must be very clear that that role is one which prepares developing countries to be true partners for development in negotiations outside of this body.

Mr. Geza Feketekuty

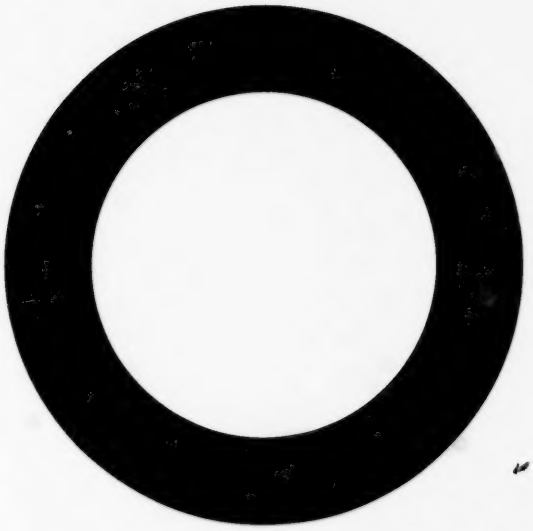
I, of course, agree with Ambassador Hill that the role of UNCTAD is to prepare developing countries to participate effectively in global negotiations related to issues in this area. I did not mention a number of the issues he raised because of the limited time available, but let me take him somewhat to task on ITA. ITA only bound the countries that subscribe to it; they agreed to remove taxes in the areas concerned. It did not bind anybody else. I suspect ITA II would be no different. It is going to be an exercise where a group of countries decide whether they are prepared to eliminate certain restrictions or eliminate tariffs in certain sets of products. I think this is not undemocratic.

Mr. Alec Erwin

I think one of the difficulties we have is in a process where plurilateral agreement commences. Whilst it only binds those countries that sign, it inevitably must deal with crucial principles of, in this case, electronic data exchange. What we must just guard against a little is that, precisely because it is a self-selected plurality that comes together, the interpretation of crucial principles takes place within a certain view of the prism, and that then becomes quite a heavy weight in subsequent negotiations. I think that is one of the concerns one would have about plurilateral expansions into

the multilateral. The truth is we will not be able to avoid this, because countries need to move forward. So I would fully share the view that UNCTAD must play an active role, as we are trying to do in this very initiative, in terms of promoting a widespread awareness of the principles involved and then assisting actors that are not in the plural agreement to begin, themselves, shaping certain issues.

Let me refer here to a difficult strategic choice which we in South Africa had to make. We have been particularly concerned, as a result of our own history, by the complete absence of infrastructure, even basic old analogue telephone systems, in large parts of our country. We had a policy objective, and that policy objective was to provide telecommunications to a broad spectrum of people in our cities, as well as in rural areas. Now, in those circumstances, we had a trade-off, because we wanted two important things out of our telecommunications corporation: one was to do a lot of training, so a large part of our subsequent strategic equity partnership agreement has placed a massive emphasis on all forms of training. The second objective we had was to spread the infrastructure into the rural areas. Now, in a very competitive telecommunications environment, we elected, and whether we were right or wrong will be tested over time, to provide an exclusivity period, provided that those two objectives were met in full. That represented a more complex debate than just saying that you must automatically have competition. Our own publicly owned corporation was in fact concentrating on the cities, and it was not going into the areas of poverty where black persons were; it was staying where the high value-added services were. That is a slightly different look through the prism. And that is why I think that a discussion like this in UNCTAD is absolutely critical, so that all possible objectives and policy packages can be put on the table and so that progress towards a multilateral agreement, which I think we are going to have in one way or another, is not achieved through one process only.



Part three

PARTNERS FOR DEVELOPMENT

Message from Mr. Kofi Annan, Secretary-General of the United Nations

"I am pleased to convey a message to the first ever joint session of the High-Level Segment of UNCTAD's Trade and Development Board and the Second Committee of the General Assembly and to participate in the official launch of the "Partners for Development" initiative. This is a most worthy undertaking, fully compatible not only with the overall thrust of our work for development and peace but also with the reform process that is now modernizing the United Nations family of organizations.

I would like to salute my colleague, the UNCTAD Secretary-General, Mr. Rubens Ricupero, for his commitment and contributions. I would also like to thank the Government of France and particularly Mayor Raymond Barre of Lyon for the support and for the invitation to host the meeting in Lyon next year to assess progress.

"Partners for Development" is both bold and realistic. Bold in that it will involve civil society, especially non-governmental organizations and the private sector, even more deeply in the work of the United Nations. This by itself is welcome, but it will also help fulfil another of my main objectives, strengthening the organization's efforts in the area of economic and social development. And it is realistic in that it focuses on concrete partnerships and practical solutions.

As we all know, traditional United Nations' resources for development are not increasing. This initiative will tap the human,

technological and financial resources which have been beyond the United Nations' reach and which in today's world have become far greater than official development assistance. Its importance in this regard cannot be exaggerated.

Those who will participate in these partnership projects have chosen to work with the United Nations because of the contributions it is uniquely placed to make. The organization's universal and impartial perspective, its multicultural approach and its highly professional and dedicated staff are a formidable combination. "Partners for Development" offers yet another venue for the United Nations to demonstrate that it provides real value for money.

I pledge my full support to this initiative and very much look forward to working with you. Please accept my best wishes for success."

Mr. Rubens Ricupero

Before I make some comments on the principles that have guided us in the design and preparation of the initiative "Partners for Development", I should like to thank the city of Lyon for its generous offer to host the first meeting to be held in this context. My gratitude particularly is addressed to the Mayor of Lyon, Mr. Raymond Barre, for the warm reception he gave our proposal. I am sure that his stature as a statesman, university professor and a leader of international public opinion will all constitute a crucial asset for the success of Partners for Development. It is thus for me a great pleasure to welcome here today the personal representative of Mr. Barre, Maître André Soulier, the Deputy Mayor of Lyon and a European Parliamentarian. Maître Soulier is a humanist whose reputation has gone well beyond the borders of his country, since he is in particular the President of the Human Rights Commission in the European Parliament. It is he who has the responsibility for

conducting the efforts of the city of Lyon to organize the first meeting of Partners for Development.

Mr. André Soulier, Deputy Mayor of Lyon

It is a great honour and privilege for me to speak to you today on the occasion of the meeting in Geneva and in New York of the Trade and Development Board. On behalf of the city of Lyon and its Mayor, Mr. Raymond Barre, the former French Prime Minister, I wish first of all to thank the Secretary-General of UNCTAD, Mr. Rubens Ricupero, for having invited us today to Geneva.

In the spring of last year, a number of persons present in this room took part in the success of UNCTAD IX. A few weeks later, our city of Lyon hosted another prestigious international meeting, the Summit of Heads of State and Government of the G.7. So it was in Lyon that the Secretary-General of UNCTAD, as a guest of the G.7, for the first time set forth the results of the Midrand Conference. This was more than symbolic or a matter of pure coincidence. It was a real coming together, a sign of things to come. In fact, the Midrand Declaration adopted by UNCTAD at its ninth session, invited the Secretary-General to "convene a meeting with actors in development to advise him on how to enhance the participation of civil society in UNCTAD to build a lasting partnership for development between non-governmental actors and UNCTAD".

When he learned of the possibility of such a meeting for Partners for Development, the Mayor, Mr. Raymond Barre, immediately showed great interest in the subject and told his assistants and aids about it. The presentations which were made by Mr. Gurunlian and his team to the authorities, private and public decision-makers in Lyon, convinced us that this was a great task to be embarked on and to be brought to a successful conclusion.

Thus it is with great pleasure and pride that I confirm today, on behalf of the Mayor of Lyon, the formal invitation by the city of Lyon to host the first meeting of Partners for Development in November 1998. Your project fits in perfectly with the historical, cultural and economic profile of the Lyon area. I would add that the city of Lyon, contrary to what some people in Lyon believe, was built by people who came from outside - Italians, Germans, people from the East - and so we are returning to our traditions and our historical course when we invite you here. As you will see, Lyon is a friendly, welcoming, convivial city.

I would just like to add the following. The recent conversations that the Ambassador of France to the United Nations in Geneva, Mr. Daniel Bernard, and Mr. Raymond Barre have had have convinced us that we will have the full and total support of our state, and I have a message from Mr. Raymond Barre, who will be welcoming you in person to Lyon. If you agree, he will invite the President of the French Republic and the highest-ranking members of the French Government to participate in your great world meeting. The elected officials and the dignitaries of the city and the region have already began anticipating that you will say yes to this and are preparing the ground. This augurs well for the success of the meeting.

I would like to conclude by saying that this invitation is not just from France, it is from Lyon, and it comes from the heart. So, we look forward to welcoming you to Lyon in a year's time.

Mr. Rubens Ricupero

I thank Maître André Soulier, and through you I would also like once again to thank Mr. Raymond Barre for his generous offer to meet together in Lyon. I thank you for your enthusiastic and warm-hearted words, which entirely capture the spirit in which we intend to work for the success of Partners for Development.

I would just like to add that, for us, it is a particular reason for joy to be able to meet in Lyon, the capital of Gaul. The city where the industrial revolution began, particularly with the textile industry, and the setting for the revolt of the poor weavers, it is a city with a glorious past that we all know well. It is also a city that has great affinities with Geneva, which is the part of Switzerland that welcomes us here in UNCTAD.

This initiative for Partners for Development is the result of an effort to make the renaissance of UNCTAD a reality. When I came to this organization, a little more than two years ago, I realized that one of the major causes of the crisis at present affecting all international organizations, not just in the United Nations system but wherever there is talk of reform, is the fact that those organizations have not been able to integrate into their debates, into their life, into their activities, these new actors who have emerged on the scene and who are the principal feature of international relations at the end of the century. I mean obviously non-governmental organizations, the private sector, research centres and universities. We have not yet managed fully to understand the scope of this phenomenon, though it is an extremely important one. The two most important subjects during the second half of the century have been the evolution of human rights and the evolution of the environment, and these two subjects have been developed at a very high level and very intensively not so much by States, which in general have been somewhat recalcitrant in dealing with them, but by non-governmental entities. It is in our interests to integrate civil society, rather like statesmen did after the First World War when the International Labour Organization and the International Labour Office were set up. They understood the need to have workers and employers involved at the same time as Governments. We intend to do this in Lyon in a very pragmatic manner. This will be the very first time that we shall have an international meeting where we won't be discussing a document, we won't be debating on the basis of papers and conclusions and that sort of thing; we are going to come to an agreement on concrete projects

that can really change people's lives in developing countries. Clearly, we don't intend to bring along our projects and invite our partners simply to implement them. We want to discuss those projects with them, and we have already designed several such projects. I have already spoken of trade points, but in this case, thanks to the initiative of Geza Feketekuty, we have begun a project with the Monterey Institute in California and with San Diego State University whereby we intend to bring together about a dozen organizations that have the aim of teaching, training and forming personnel in foreign trade, in the techniques of negotiation and in how to take advantage of the opportunities created by international negotiations. We also intend to add to the question of trade questions concerning investment. We have projects on other subjects as well - commodity risk management, micro-credit for the least developed countries, and many others.

It is our intention to work in a pragmatic, specific way on the projects we have discussed with our partners and with Governments as well. Everybody will, of course, be free to agree or not, and it is our hope that Lyon will in fact be the ideal framework for the birth of something that I think will one day really bring a breath of fresh air to international organizations, which certainly need it. So, once again, I am pleased to ask you, Maître André Soulier, to transmit to the distinguished Mayor, Mr. Raymond Barre, and to all your fellow citizens, our thanks and of course our joy that we will soon be in your city.

Ambassador Oscar de Rojas

We have come to the conclusion of this first joint session of the Second Committee and the Trade and Development Board. I hope that there will be many opportunities in the future to use these technological advances that help us so much in our intergovernmental activities in the United Nations. We hope to be able to have an opportunity in the Second Committee and certainly

in the Trade and Development Board also to identify important issues of immediate interest to both intergovernmental bodies.

As you know, and I think our colleagues in Geneva know this as well, in a very few days here in the Second Committee we shall be considering item 95(c) of the agenda of the General Assembly, entitled "Trade and Development", and we will be considering the report that the Trade and Development Board has presented to us. It will be a great deal easier this year to have that debate after this very helpful meeting that has allowed us to get to know the Trade and Development Board so well, so closely.

Finally, I would like to take this opportunity also to say that, in a few days, on 11 November, as part of a series of special activities that we are carrying out this year in the Second Committee by way of follow-up to a number of events that occurred last year, we will have an interesting panel on the occasion of the fiftieth anniversary of the Havana Charter on Trade. The theme of the panel is "New Challenges for the Multilateral System of Trade", and it will be organized by the secretariat of UNCTAD. We are very pleased because the Secretary-General of UNCTAD, Mr. Ricupero, has offered to be the moderator of that panel, and we are looking forward to seeing him here.

Moderator

I have been asked to say a few words to summarize the debate, which I will do very briefly. This morning we had a discussion on globalization, competition and development, and we asked ourselves a number of questions. But all these questions come down to one overall question, namely under what conditions will globalization be beneficial rather than a threat, because very often countries, people within countries or specific sectors exposed to competition feel threatened. The interesting thing during the discussions this morning on that issue was perhaps that a particular

emphasis on domestic policies, including competition policies, was seen as necessary in order to make globalization beneficial for all countries and all societies. The emphasis was therefore on domestic policies, and many different examples were mentioned. Countries have to get themselves ready to be exposed to international competition, invest in physical and social infrastructure, invest in good governance, and develop good competition policy in order not to be overwhelmed by the major economic powers. As was said by one of the panellists, good domestic development policies, seen in broad terms, are the best passport to the world economy. It is not the other way round; participation in the world economy is necessary but is not sufficient to have sustainable human development for the whole of your society.

I think that was more or less the political gist of the discussion this morning. At the same time, of course, there were a number of questions. Even if it is not a threat, globalization can go very fast, or it can be decided upon in not too democratic a way on the basis of decisions taken by bigger powers or by big financial companies. It can go too fast; it can be one-sided; it can perhaps also be too economic.

We all agree, I think, that globalization is an irreversible process, and so the approach today was to say - join the process, don't try to stop it. Join the process; that was the message that was delivered to us and by us, mostly as representatives of the public sector, as diplomats, as politicians. We understand that that process of globalization, as also was made clear during this afternoon, is a process which is being led by technology and by economic powers. I think that implicitly it was also understood that, insofar as international organizations or Governments themselves have participated in the process of globalization, it was more to facilitate that process, make it possible, make it work even better, rather than to guide it or steer it. We are no longer in an era of steering. We leave a lot to the market, to the economy, to technology. But at

the same time, of course, there are concerns about leaving too much to technology and too much to the economy. Should we refrain completely from guiding the process? Should we only facilitate the process, or should we do a bit more? Statements made with regard to the specific issue of electronic trade, or when we were discussing possible wider disparities due to globalization, made us aware of the fact that is necessary to go another mile as international organizations, whether economically here in Geneva or politically perhaps in New York. Four steps can be mentioned in this connection.

Firstly, what we could do is to discuss timing, sequencing and phasing, since perhaps not all economies and all societies should move at the same speed. Some of the panellists spoke about individual countries that are participating in the process of globalization on their own terms, because the most important thing is, as Minister Erwin was saying, to take responsibility for your own people. Timing, sequencing and phasing might perhaps be discussed in the framework of international organizations.

Secondly, perhaps also a broader approach is necessary. We have discussed electronic trade, we have discussed trade, we have discussed finance in Hong Kong, but what about the globalization of ecology, the globalization of measures of an environmental character, what about globalization also of employment policies, what about globalization of policies related to the issue of political instability and insecurity in countries? Maybe we have gone a very long way in the facilitation of the globalization process of the economy, but not far enough in terms of the facilitation of the globalization of ecological, political, environmental and social issues, and this may create a lack of balance in our world society.

These two issues, phasing and broadening, call upon politicians and the public sector to guide perhaps not the economy itself but all the complementary sectors of the economy, such as the ones I mentioned. And that brings me to the third task.

Perhaps we need to create countervailing forces which would only work on the basis of their own interest, and that is very much related to the issue of this morning - competition policy. If there is real competition on an equal footing, then there is greater promise of balance and stability than if the distribution of economic power in lopsided.

The fourth and final task relates to the fact that the global economy is perhaps seen as a threat by some people. To a certain extent, increasing uniformity of rules and behavioural standards, oriented towards stability in all countries, may mean that stability will become predominant over democratization. The final task is, in particular, to create a world society in which everybody can benefit from the process of globalization. As was also mentioned today, good governance also includes democratization, and perhaps the United Nations could help groups within societies, civil society groups, to speak out and to participate in the process of globalization in order not to leave the process of globalization only to those who already have economic power.

So these are four tasks for the international community - four tasks for the United Nations, not only here in Geneva but also in New York. I think it is also for that reason that it is quite important that we had a joint session between Geneva, where there is often a very economic orientation in UNCTAD, and New York, where the Second Committee has broader discussions of social and political issues. I very much hope that the reform of the United Nations will enable it to take up such challenges.

Mr. Rubens Ricupero

Let me conclude our meeting by saying that, since we have discussed problems related to information technology, I think it would be appropriate to tell you that one of my favourite phrases is by Norbert Wiener, the great mathematician, who was, as you

know, the founder of cybernetics. He used to say: "To be informed is to be free". I confess that the first time I read the phrase, I had some difficulty in understanding what the link was between information and freedom. Then, on reflection, I came to the conclusion that his intention was to show that to be free is to be able to choose, but to choose, you must have options, and you must have information about the options. If you are not informed about the options, you can't choose, you can't be free.

In the past phases of globalization, namely mercantalist capitalism and industrial capitalism, technology was used more for domination and for exploitation, although positive consequences also ensued. Now, we have to make sure, in this phase of which is maybe the final phase of globalization, that information, science and technology will be used not for the oppression of man but for his liberation.

Ambassador Goce Petreski, Permanent Representative of the former Yugoslav Republic of Macedonia, President of the forty-fourth session of the Trade and Development Board

Allow me, on behalf of the Trade and Development Board to express sincere thanks to all who contributed to the success of this session. As our meeting closes, we can only take consolation in the fact that every end is a point of departure. Thank you.

Notes

1/ For the report of the Trade and Development Board on its forty-fourth session, see UNCTAD document TD/B/44/19 (Vol. I).

2/ High-level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development, 27-28 October 1997.

3/ Eighth Raul Prebisch lecture, delivered on 24 October 1997.

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